Risk and Opportunity Management Strategy

This document outlines the Police and Crime Commissioner's (PCC) commitment to managing risk and opportunity in an effective and appropriate manner. It is intended to be used as the framework for the delivery of the Risk and Opportunity management function and provides guidance on developing risk and opportunity management as a routine process for all services.

The Risk and Opportunities management framework will help improve strategic, operational and financial management, provide better decision making, improve compliance and help improve customer service delivery and provide better outcomes for the citizens of Lancashire.

1. Introduction

This Risk and Opportunity Management Strategy will ensure that:

- The management of risks and opportunities is linked to performance improvement and the Police and Crime Plan.
- The Office of the Police and Crime Commissioner (OPCC) lead and support on Risk and Opportunity Management.
- Ownership and accountability are clearly assigned for the management of risks and opportunities.
- There is a commitment to continue to embedding risk and opportunity management into the culture and organisational processes at all levels including strategic, operational and project.
- All staff acknowledge and embrace the importance of risk and opportunity management as a process by which key risks and opportunities are identified, evaluated, managed and contribute towards good corporate governance.
- Effective monitoring and reporting mechanisms are in place to continuously review and manage the exposure to the risks and opportunities.
- Accountability to stakeholders is fully demonstrated through the periodic progress reports to the Joint Audit and Ethics Committee.
- The approach to risk and opportunity management is regularly assessed by internal and external assessment.
  The Risk and Opportunity Management Strategy is reviewed and updated every 2 years in line with developing needs and requirements.

2. What is Risk and Opportunity Management?

2.1. Risk and opportunity management is the control of business risks and opportunities in a manner to ensure that both long and short term objectives of the PCC are achieved and that opportunities are full maximised. In this context risk is defined as uncertainty of outcome, whether positive opportunity or negative threat of actions and events. It is the combination of likelihood and impact, including perceived importance.

2.2. Risk and opportunity management is not always solely about eliminating risk as this would limit the availability of the PCC to develop and deliver its ambitions. Its purpose is to recognise the issues that could affect the achievement of PCC objectives and develop actions to control or reduce those risks. The PCC has an agreed appetite for risk which is explained later. Acknowledgement of potential problems and preparing for them is an essential element of risk that will enable the PCC to rapidly respond to change and develop innovative responses to challenges and opportunities.

2.3. Risk and opportunity management is essential for the successful delivery of public services. An effective risk and opportunity management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective. It is also about identifying opportunities which may have been neglected because of perceived but unexamined risk. These could include:

- Learning from the past – whilst past experience cannot necessarily be a predictor for future performance, signals that were ignored and missed opportunities can provide insight into organisational blind spots.

- Customer sensitivity – trying to understand customer needs and creating systems to exploit this information can lead to great gains.

- Learning from other – exploring and sharing best practice with other organisations can lead to benefits.

- Scenario planning – can be powerful tool for generating new ideas.

2.4. When opportunities are identified they should be described to include the expected benefits contributions to business objectives and stakeholders.

3. Background – Process for Managing Risks and Opportunities

3.1. Risk Management Framework
Risks and Opportunities are split into three categories

Strategic – These are risks and opportunities which relate to the long term goals of the PCC. These tend to be medium to long term but some may feature for a shorter period of time because of a significant event or planned businesses activity. Inclusion of a risk of opportunity in the corporate risk and opportunity register indicates that is one of number of Risks/Opportunities that the PCC needs to be aware of and ensure appropriate management arrangements are in place to manage/mitigate them.

- Operational – These are risks and opportunities which relate to the day to day operations of the OPCC. Operational risks will also be identified as part of the business continuity process. The Office will identify risks associated with its operation and the impact on business processes/activities and appropriate mitigation procedures that will be implemented.

- Project – These are risks identified in connection with all major projects which the PCC undertakes. These projects are run in accordance with appropriate project management guiding principles. Risks associated with major projects are those that if they occur will have an effect on at least on project objective.

3.2. All major projects will be identified, managed and reported on the register.

4. Aims and Objectives

4.1. The aim for the PCC in risk and opportunity management is to adopt best practices in the identification, evaluation, cost-effective control and monitoring of risks and opportunities across all processes to ensure that risks and opportunities are properly considered and reduced as far as possible.

4.2. The risk and opportunity aims and objectives for the PCC are to:

- Integrate and raise awareness of risk and opportunity management for all those connected with the delivery of the PCC's Plan.

- Embed risk and opportunity management as an integral part of strategic, information use, financial, business continuity and project planning and policy making.

- Establish a standard systematic approach to risk identification, analysis, control and monitoring and reviewing.

- Provide a process for identifying threats or drawbacks that also includes finding and considering opportunities.

- Provide a robust and transparent framework for managing risk and supporting decision making.

- Support well thought-through risk taking.

- Anticipate and respond to changing external and internal environment.

- Embed risk and opportunity management as part of the PCC's culture of Governance.

- To provide a robust and transparent track record of managing, communicating and responding to risk.

- To encouraging staff to think creatively about ways to work better, simpler and more effectively.

4.3. The three categories of risks and opportunities are split on one Risk and Opportunity register for the PCC.

4.4. Both registers detail the following information:

- Potential effects of the risks identified, both negative (risks and threats) and positive (opportunities).

- The impact and likelihood of the risk/opportunity identified.

- Existing internal controls in place to mitigate the risk.
- Internal controls planned to mitigate the risks with relevant timescales and the responsible officers.

5. Ownership

5.1. The responsibility to manage risks and opportunities rests with every member of staff of the OPCC however, it is essential that there is a clearly defined structure for the co-ordination and review of risk information and ownership of the process.

5.2. The following defines the responsibility for the risk and opportunity management process at the OPCC.

OPCC Senior Management team – Ownership of the Strategic Risks and overview of the Operational Risks. Actively support the Risk and Opportunities Management Strategy and the framework. The Chief Finance Officer will facilitate regular discussions on risks and opportunities at Senior Management Team Meetings.

Police and Crime Commissioner – Responsible for risk and opportunity Approach.

Joint Audit and Ethics Committee – to monitor the effective development and operation Risk and Opportunity management of the PCC and provide independent assurance to the PCC.

Chief Executive of the OPCC – has responsibility for maintaining comprehensive systems of internal control including risk and opportunities management processes.

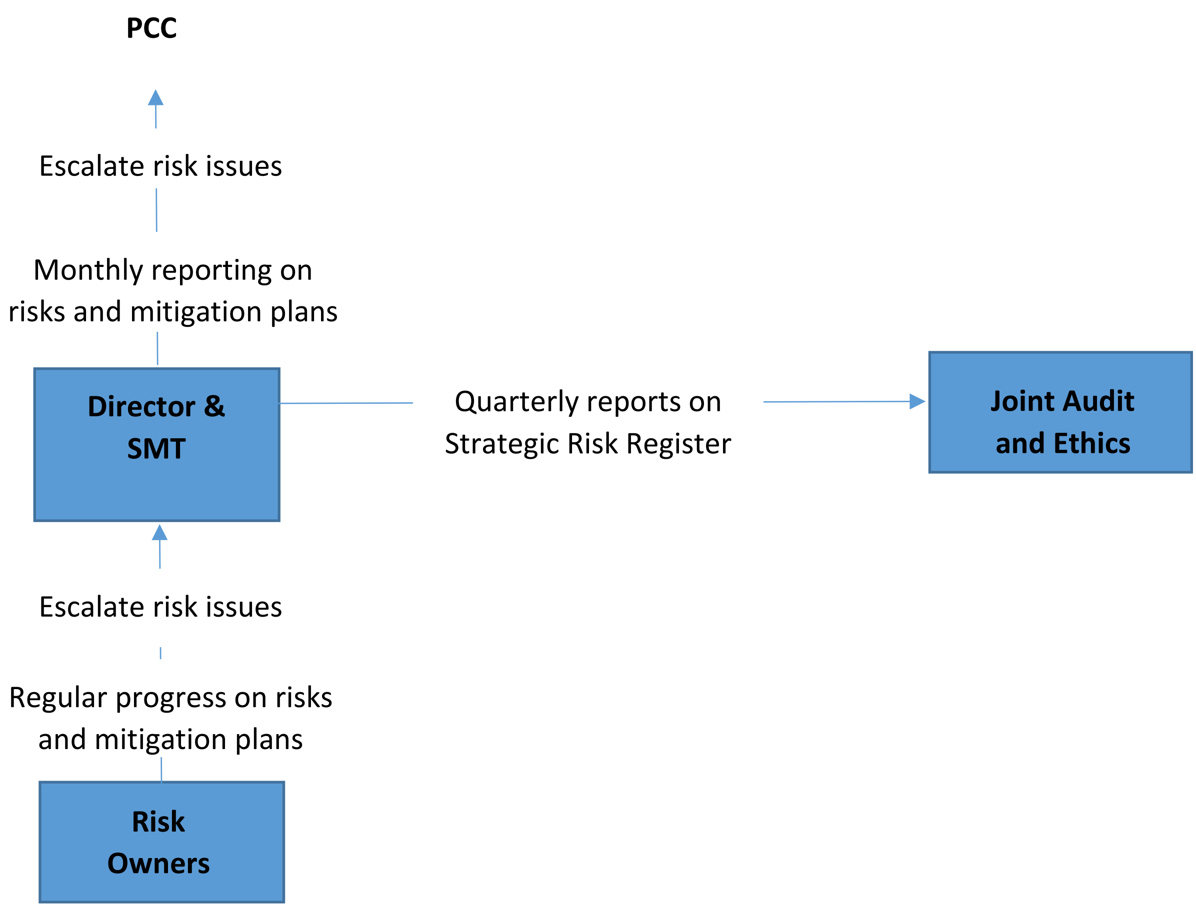
Chief Finance Officer of the OPCC – Has responsibility for ensuring appropriate internal audit arrangements are maintained and the insurance in respect of those risks transferred.

Project Managers – Are responsible for ensuring any project risks are actively recorded on the project part of the Risk and Opportunity Register.

All employees – To understand and to take ownership of the need to identify, asses and help manage risk and opportunities in their areas of responsibility and to bring to the management's attention at the earliest opportunity the details of any emerging risks and opportunities that may adversely impact on service delivery.

Internal Audit and External Audit – Annual review and report on the PCC's arrangements for managing risk and opportunities throughout the OPCC, having regard to statutory requirements and best practice. Assurance on the effectiveness of risk and opportunity management and the control environment.

6. Reporting Framework



7. Risk and Opportunity Management Process

7.1. Risk Management is the process of identifying risk, evaluating their potential consequences, considering the current controls in place and determining and implementing the most effective way of monitoring and mitigating them.

7.2. The risk management process aims to ensure that the risk management is a continuous process which is integral to the work of the Police and Crime Commissioner and his office. It does this by requiring that risk becomes a core part of everyone's thinking behaviour and actions. All decisions and processes should be reviewed and revised on a regular basis. Where risks affect the public, there is a need to be open and transparent.

7.3. The product of the risk management process is a risk register. The risk register records the risk management process, being populated with information from risk identification, assessment and review. Information must be accurate and maintained.

7.4. The aim is to improve strategic, operational and financial management of the Police and Crime Commissioner and his Office by maximising opportunities and minimising financial losses, service disruption, bad publicity, threats to public safety, project delays and other unexpected impacts.

8. Identifying Risks

8.1. The first stage of the risk management process is to identify risk issues. Risk issues can be categorised into three areas:-

Demand: Risk issues will arise in relation to volume, type and complexity of demands on the Police and Crime Commissioner/Office. The main demands for the Police and Crime Commissioner/Office are its statutory roles and responsibilities as a body of governance and as an organisation.

Capacity: Risk issues will arise in relation to the capacity and capability of the Police and Crime Commissioner/Office to meet the demands placed on it. Capacity and capability cover people, money, buildings etc.

Governance: Governance is about ensuring you do the right things in the right way for the right people in a timely, open, honest and accountable manner. It comprises the systems and processes and cultures and values by which the Police and Crime Commissioner is directed and controlled and through which they account to, engage with and where appropriate lead their communities.

8.2. For each risk issue included in the risk register the following should be done:

Assign a **risk owner.** OPCC Leads will own the risk on behalf of the Director and will be responsible for managing, monitoring and reviewing their own risks.

Describe the main **causes/impacts**. Each risk issue is likely to have a number of causes/impacts.

List the main **existing control measures.** Information on the causes/impacts of an identified risk issue and the control measures already in place to mitigate the risk issue will assist when it comes to assessing the risk.

9. Assessing Risks

9.1. This Strategy adopts a risk management methodology to assess the impact of a risk should it materialise and the likelihood of this happening. This methodology plays an important part in determining how much attention we need to give to managing specific risks through helping us to consider the implications should they arise. The methodology involves scoring risks based on the likelihood of the risk happening and the impact. It uses a 5x5 matrix that produces a risk score of between 1 and 25.

Score	Likelihood	Impact
1 Very low	A risk has a very low score if the likelihood of it happening is less than 5% over 100 years. Basically, it could happen but it is most likely that this would never happen.	The impact for a very low score has to be insignificant. This would mean no service disruption or financial losses, no media interest or no obvious harm or injury from the risk arising.
2 low	A risk has a low score if the likelihood of it happening is between 5% and 25% at some point in the next 25 years. This means we don't expect it to happen but it is possible.	There is some implication for services, financial loss or some harm but these are only slight. There could be some reputational impact but this would be short term. The overall impact would not last beyond a 2 to 6 month period.
3 medium	A risk has a medium score if the likelihood of it happening is between 20% and 65% over the next 10 years. This means it may happen occasionally.	There is service interruption, significant financial loss, injury, and adverse publicity with some reputational damage and/or legal implications. The overall impact would last between 6 months and a year.
4 high	A risk has a high score if there is a 65% to 90% likelihood of it happening at some point over the next 3 years. Basically, it probably will happen but it won't be too often.	The implications on service provision are significant, there is major financial loss, fatality, major adverse publicity and/or major loss of confidence in the organisation. The overall impact would last between one and two years.
5 Very high	A risk has a very high score if there is a 90% or more chance of it happening every year. This means that it is almost certain to happen regularly.	We could not be able to fulfil our obligations, severe financial loss would be incurred, multiple fatalities have occurred with highly damaging implications for our reputation and a severe loss of public confidence. The

		overall impact would be expected to last for more than two years.

9.2. Having chosen the 'likelihood' and 'impact' which best relate to the risk issue, the corresponding 'likelihood' and 'impact' scores are multiplied together to provide a total risk score. This is the level of risk faced before any new control measures are applied.

Likelihood x impact = total risk score 3x5 = 15

9.3. The total risk score enables risks to be categorised into low (green), medium (yellow), high (amber) and critical (red) risk bands as illustrated in the table below. A total risk score of 15 would be a high (amber) risk.

9.4. These bands prove helpful when it comes to addressing risks, determining the need for additional control measures and the frequency of risk monitoring.

Impact	5 Very High	5	10	15	20	25
	4 High	4	8	12	16	20
	3 Medium	3	6	9	12	15
	2 low	2	4	6	8	10
	1 Very low	1	2	3	4	5
		Very low 1	low 2	medium 3	high 4	Very high 5
		Likelihood				

10. Addressing Risks

10.1. There are four types of action to reduce risk:-

Avoid: a decision is made not to take the risk. Where risks outweigh possible benefits, terminate the activity/situation that generates the risk where it is feasible to do so.

Transfer: it may be possible to transfer the risk through insurance, contracting out the provision of service or paying a third party to take it on.

However, it should be recognised that not all risks may be transferred eg impact on reputation.

Tolerate: a decision is taken to accept the risk. This may be where the probability or impact is so low that the cost of managing the risk is greater than the risk. This is likely to apply to those risks with a total score which is between 1 and 4 (low risk band).

Treat (or mitigate): This is the most common practice of addressing risks. It involves reducing the probability of risk occurring (e.g. preventative action) or reducing the impact (e.g. having adequate business continuity plans in place). This is likely to apply to any risk issues exceeding a score of 12.

10.2. The amount of risk that the Police and Crime Commissioner/Office is prepared to accept, tolerate or be exposed to at any one point in time will guide its risk response.

10.3. The table below illustrates how the Police and Crime Commissioner/Office has agreed it will respond to each level of assessed risk.

	Risk Controls	
Risk Score	Control Actions	Additional Risk Response
1-4 Low Risk	• Continue with existing control measures • Review the risk at least every 6 months	Monitor only
5-10 medium risk	• Continue with existing control measures • Review the risk at least every 3 months	Monitor only
12-16 high risk	• Continue existing controls and monitor • Review the risk every month.	Investigate further controls and monitor
20-25 critical risk	• Review the risk at every week • Take immediate remedial action to reduce risk	Instigate immediate controls and escalate if appropriate.

10.4. For each risk issue identified with a score above 'low risk' the Police and Crime Commissioner/Office will decide upon a course of appropriate action to manage the risk down to acceptable levels. Risk controls are methods of reducing the likelihood of a risk occurring and/or decreasing the impact.

10.5. Each risk and control should be allocated to an owner. This should be the individual who is best placed to monitor the risk and manage all necessary actions to minimise it.

10.6. Residual risk is the level of risk that remains once risk controls have been applied and have taken effect. It may or may not be acceptable to leave the residual risk un-addressed. These decisions are considered when risks are reviewed.

11. Reviewing Risks

11.1. It is essential risk is routinely reviewed, as new risks will emerge and existing risks change.

11.2. Consideration will be given to new risk issues as well as existing risk issues being removed where appropriate.

11.3. Risks will be reviewed monthly at the Police and Crime Commissioner's Senior Management Team meeting with input from Risk owners. The Governance and Policing Lead will act in a co-ordinating role, ensuring that risk owners contribute within the appropriate time frame. The above table provides an indication of how frequently each level of risk should be reviewed.

11.4. Risks will be reviewed by the Police and Crime Commissioner quarterly. However, the Police and Crime Commissioner may review the risk issue sooner and would do so immediately should the Police and Crime Commissioner become aware of a change in the risk environment which may give rise to a significant risk.

12. Reporting Risks

12.1. The Office of the Police and Crime Commissioner and Constabulary have in place a Joint Audit and Ethics Committee which has independent membership.

12.2. The Committee will examine evidence provided by internal and external audit and other governance areas to ensure that we demonstrate we are actively managing our risks. This provides independent assurance to the PCC, Director and Chief Finance Officers.

12.3. The relevant terms of reference of the Joint Audit and Ethics Committee are:

- Considering the effectiveness of the processes for assessing and managing key risks to the Police and Crime Commissioner and Chief

- Constable by reviewing risk registers for the Police and crime Commissioner and Chief Constable at not less than 6 monthly intervals.

12.4. Internal audit are responsible for periodically reviewing the effectiveness of risk management processes including the verification that controls are operating as intended. This source of independent assurance is a fundamental part of the evidence used to discharge our accountability for reviewing the effectiveness of our governance arrangements. External auditors will seek to place reliance on internal audit work and the Commissioner's Annual Governance Statement forming in opinion on the overall arrangements for governance.