CABINET OFFICE

FRAMEWORK FOR RISK-BASED DECISION MAKING

Introduction

1. This document has been produced in response to the commitment in the Modernising Government Action Plan that all departments should make public the framework and procedures they use for reaching decisions on the risks for which they are responsible.

2. Much of the work of the Cabinet Office is accomplished through networks, consultation and problem resolution in partnership with other parts of central government, local government and many other bodies in the public and private sectors. The Cabinet Office collaborates with these organisations to ensure that risk management is considered as an integral part of the policy and decision-making process. There are, however, few areas where the work of the Cabinet Office has a direct impact on the public; most agreed policies and actions are implemented by others who must manage the risks associated with them.

3. This document deals with the risks that the Cabinet Office faces in striving to meet its aim of ensuring that the Government delivers its priorities. It sets out the way in which the Department manages the risks to its objectives and the risks that are likely to impact on those objectives which arise from the work of its partners and from other outside sources e.g. unforeseeable events.

The nature of Cabinet Office responsibilities

4. The Cabinet Office is part of the corporate centre of Government. It sits alongside the Prime Minister's Office and the Treasury. The Department's aim is to ensure that the Government delivers its priorities. This is done by working with No 10, Departments and others to modernise and co-ordinate government in order to secure excellence in policy making and responsive, high quality public services.

5. The work of the Cabinet Office can be categorised under four broad headings: co-ordinating decision making, working across departmental boundaries on crosscutting issues, modernising government, and modernising the Civil Service. For a detailed description see the Cabinet Office Departmental Report.

The general approach to risk and risk management

6. The Accounting Officer and the Cabinet Office Management Board support the development of existing risk management policies, practices and procedures within the Department. There is a clear realisation that levels of uncertainty are rapidly changing as a result of, for example, new technology, joined up working, removal of unnecessary regulations, rising stakeholder demands etc, and that therefore there is a need for a corporate, systematic approach to risk management. The Board has appointed a Risk Co-ordinator and defined the role.

7. The Cabinet Office has re-constituted its Audit Committee to become the Audit and Risk Committee. The committee reports to the Cabinet Office Management Board. The Committee is the principal forum for risk discussion and communication. The Committee's primary functions in relation to risk management are:

- To consider and review the adequacy of the control framework and risk management within the Department;
- To approve the programme for identification, management and communication of risk, monitor its implementation; and
- To ensure adequate risk management staffing and training.

Definitions of risk and risk management

8. The Audit and Risk Committee has adopted the following definitions for risk and risk management.

- **Risk** is any event or uncertainty that may enhance or impede the Department's ability to achieve its current or future objectives.
- **Risk management** is the culture, processes and structures that are directed towards the effective management of potential opportunities and threats facing the organisation striving to achieve its objectives. It means having in place a corporate and systematic process for evaluating and addressing the impact of risks in a cost-effective way and having staff with the appropriate skills to identify and assess the potential for risks to arise.

Risk management process

9. The risk management process can be divided into two broad elements:

- Risk identification and assessment – considering the chance and impact of identifiable threats to achieving objectives.
- Risk management and review – including defensible risk-taking, the considered exploitation of opportunities, and possible control and other actions.

Risk identification and assessment

10. In pursing its aim of ensuring that the Government delivers its priorities, the Cabinet Office needs to identify and assess both the risks to meeting its own objectives and those that are likely to affect the objectives which arise from the work of its partners and other outside influences.

11. Risk identification and assessment (threats and opportunities) play a critical part in setting corporate objectives and, flowing from these, objectives at Unit level and below, drawn up as part of the business planning process. The objectives and the risks associated with them follow discussion and consultation with stakeholders.

12. The Cabinet Office follows a bottom up/top down approach to risk identification and assessment. Risk management is integrated into the department's business planning process to promote a consistent approach. It also makes significant opportunities and threats to the achievement of objectives more visible to the Management Board and to senior managers and enables them to discharge their corporate governance responsibilities. Information for the "bottom up" element of the risk strategy is provided by Heads of Management Units as part of their annual planning submissions. This informs discussion by the Management Board on the identification and assessment of corporate risks. The strategic risks agreed by the Management Board and the counter measures in place to mitigate their effect, are at the Annex.

13. Ownership of strategic risks has been agreed by the Board. The Board will ensure that responsibility and authority for implementing responses is clear. The risk owners are members of the Audit and Risk Committee the reports from which are submitted to the Management Board. The corporate risks, their relative priority, and how they should be managed are to be communicated to staff.

14. Risk identification and assessment is not confined to the process of drawing up the annual business plans. It is an on-going process and various mechanisms are used, for example:

- Studying departmental business and implementation plans and programmes, reports, returns, statistics etc.

  e.g. Forward look exercises carried out by the Regulatory Impact Unit which scrutinises departmental plans to establish potentially burdensome regulation at an early stage and plan monitoring, early involvement/intervention to ensure that Government regulation are transparent, accountable, balanced between addressing risks, benefits and necessary costs and represent the best of the available options to meet the policy aims.

- Proactive consultation with partners/stakeholders/customers

  e.g. The Constitution Secretariat manages the relationships between the UK Government and the devolved administrations. Through pro-active consultations, communications and regular meetings, the Secretariat is in a position to detect any potential breakdown in those relationships.

  Similarly, the European Secretariat pro-actively consults with EU partners, the Commission and/or MEPs to counter developing risks and to assess rapidly all available options with interested parties.

- Maintaining networks of partners/stakeholders

  e.g. The Women's Unit contributes ideas and examples to policy development which will improve the economic and social well being of women. It works closely with other Government Departments, the Women's Policy Group and a wide range of networks to determine threats to levels of acceptance and implementation of policies.

- Close liaison with national and international agencies

  e.g. the UK Anti-Drugs Co-ordination Unit liaises closely with national and international agencies to identify potential obstacles to implementation of the Government's 10-year strategy to tackle drugs misuse in Britain.

- Maintaining and assessing flows of information and intelligence

  e.g. The Intelligence and Security Secretariat is continuously engaged in assessing information and intelligence to establish risks to British interests at home and abroad.

- Attending interdepartmental and other meetings

  These are generally undertaken by all parts of the organisation and provide opportunities to identify and understand potential risks to the delivery of Government policies.

- Carrying out or commissioning research, surveys, policy evaluation

  e.g. Modernising Public Services Group conducts research into attitudes and awareness to identify obstacles to carrying forward the agenda established by the Modernising Government White Paper.

- Conducting scoping studies for projects

  e.g. The Social Exclusion Unit conducts scoping studies as it investigates new subjects for study for approval by the Prime Minister. The scoping studies flag up the consequences of the various options.

- Media monitoring

  e.g. Communications Group monitors the media to identify inaccurate or misleading reporting which could adversely affect acceptance or implementation of Cabinet Office policies.

- Monitoring contracts

  e.g. HMSO monitors a number of contracts to ensure that it can effectively execute its Queen's Printer and Government Printer responsibilities.

15. Assessment of risk is largely judgmental. Appropriate responses are made in relation to the likelihood of risks occurring and their potential impact.

Risk management and review

16. The risk strategies adopted depend on individual circumstances. They include:

- **Avoiding the risk** e.g. not performing the activity; considering other courses of action; deferring a decision until more information is obtained.
- **Reducing the likelihood of occurrence** e.g. eliminating the cause; minimising the probability by preventative measures.
- **Reducing consequences of impact** e.g. ensuring effective monitoring; taking steps to prevent, minimise or contain impact.
- **Transferring risk** e.g. contracting-out
- **Accepting the risks** e.g. as necessary; unavoidable; as more tolerable than others; establishing parameters and tolerance limits;
- **Ignoring the risks** e.g. where their impact is judged to be minimal.

17. Existing risk strategies and mitigation measures/controls are reviewed regularly to ensure that they remain adequate and effective. New or revised safeguards or arrangements are introduced as necessary.

Risk reporting

18. From April 2001 Heads of Management Units will report quarterly on changing levels of risk as part of their normal reporting against their objectives and outputs. At Board level "top down" risks will be reviewed on an exception basis. The formal annual assessment by Heads of Management Units will continue but enhanced to cover all systems and to be repeated at the mid-year. This will enable the Management Board and Heads of Management Units to fulfil their corporate governance responsibilities and be in a position to sign a Statement of Internal Control. Consideration is being given to training and informing Heads of Management Units of their new corporate government responsibilities.

19. Risk management self-assessment workshops are being rolled out across the department to identify and assess risks, to determine appropriate responses, to allocate responsibility, and to record details in risk registers. Local risk management arrangements will be introduced to monitor and review processes, including reflecting lessons learned from corporate experience. Arrangements will be put in place to track lower level risks and to report these upwards should they show signs of escalating and requiring improvement of the risk response.

Risk policies and standards

20. Clearly stated, corporate risk policies and standards, are being developed by the Management Board and communicated to staff, to the Government Car and Despatch Agency and to the Department's NDPBs. Ethics, leadership style and expected management behaviours are also being developed and communicated.

21. Heads of Management Units are provided with guidance on risk identification and risk management as part of the initiation documentation to the business planning round and at Planning seminars for Heads of Management Units and Local Finance Officers.

22. Standard sets of guides (e.g. the Management Code and Financial and Planning manual) are being reviewed to ensure that risk management is properly addressed.

Risk Awareness Training

23. The Audit and Risk Committee agreed that risk management would only be meaningful if staff were convinced that identifying and controlling risk were essential to the success of their work. Risk awareness training and risk management self-assessment workshops have therefore been developed and piloted. Meetings have been held with Heads of Management Units to give feedback on their risk returns from the planning round and to discuss their Units' needs for risk management training and facilitated risk management self-assessment workshops. Heads of Management Units are including risk awareness training in training and development plans. Risk awareness training courses are being introduced into the department's central training programme. Arrangements are being made to meet the needs of Heads of Management Units for facilitated risk management self-assessment workshops within their organisations.

Risk registers

24. Risk registers exist in parts of the Department and for major capital projects. A central risk register is being devised together with procedures for maintaining/updating it.

Conclusion

25. The Cabinet Office Management Board and the Audit and Risk Committee consider that good corporate governance will only be achieved if effective risk management is embedded in the culture and thinking of the Department and the system for delivery is dynamic and continuous. The central drivers are the integration of risk management within the business planning process and the top down/bottom up system of risk identification and assessment. These systems provide the right opportunities and signals for the culture change to happen.

ANNEX

Cabinet Office

Strategic Risks and Mitigation Measures – 2001-02

Strategic Risks	Impact	Risk Response
1. **Failure to secure buy-in** of key stakeholders, in particular other government departments and agencies.	Caused by incoherent approach, disproportionate reporting requirement or ineffective leadership. Would have significant detrimental effect on cross cutting, Modernising Government, e-Envoy and CS reform areas, leading to patchy delivery and failure to achieve targets in some areas.	- Act on findings of **Peer Review of Cabinet Office** e.g. audit central reporting requirement, provide a more joined-up interface (including with HMT and No10). - **Baseline key customer views** through survey and monitor progress. - Build capacity for **increased role in monitoring implementation** stages of cross cutting reports. - Increase **stakeholder management capability** in e-Envoy
2. **Failure to deliver specific PSA commitment (s)**.	Significant damage to Government and Centre's reputation.	Effective review and management mechanisms in place: - **Key player in PSX** process to monitor OGD/agency performance. - **Use of corporate leadership mechanisms** e.g. CS Management Board. - **CO Management Board to focus on priority areas**

		in monitoring of business delivery.
3. **Competing for capabilities.**	Lack of the right skills in the right place at the right time would delay key projects and threaten quality of delivery. Impact could be most keenly felt in specialist areas e.g. E Envoy.	- Implementation of new **personnel strategy**. - Plans to staff up E Envoy Group - **Revised pay and appraisal systems,** and better deal for staff actions to be implemented. - Results from 2000 **people survey** to be acted upon.
4. Failure to manage within the **resource envelop** over 3 years.	Significant damage to Cabinet Office reputation.	- **Resources tied to priorities** as part of the 2001-02 allocations with PSA commitments protected. - **Change Programme** projects to be established to address Peer Review lessons, linked to completion of the **Better Quality Services** programme.
5. Failure to deliver high profile e-Government Projects (Portal, Gateway, Knowledge Network)	Significant damage to Cabinet Office and Government reputation. Potential for fraudulent transactions and significant loss.	- **Vigorous project management** controls introduced - **Contracts** with key partners from industry to ensure high quality and secure delivery of technical solutions.
6. Breakdown in Cabinet Office key infrastructure services – IT, tele-communications, building services, etc….	Services are insufficiently reliable or are not available to support the department's business objectives.	Increasingly robust contract management arrangements for main service suppliers, including a move to source many key services via a new facilities management contract by the end of F/Y 2001-02.