



**WOKINGHAM
BOROUGH COUNCIL**

Enterprise Risk Management Guidance

A Framework for Managing Opportunity and Risk

Date: 31 October 2012

Version: 11.0

Classification: Public

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| VERSION | DATE | DESCRIPTION |
|--------------|------------------------|---|
| 1.0 | 15 February 2009 | Working Draft |
| 2.0 | 3 March 2009 | Working Draft |
| 3.0 | 9 March 2009 | Initial Release |
| 4.0 | 11 March 2009 | Draft for Consultation |
| 5.0 | 25 March 2009 | Draft for SLB Approval |
| 6.0 | 30 April 2009 | Draft for Audit Committee Adoption |
| 7.0 | 13 May 2009 | Draft for approval by Audit Committee |
| 8.0 | 14 May 2009 | Final approved by Audit Committee |
| 9.0 | 18 June 2010 | Refresh by Corporate Governance Group |
| 10.0 | 3 September 2010 | Refresh for approval by Audit Committee |
| 11.0 | 22 September 2010 | Final approved by Audit Committee |
| 12.00 | 31 October 2012 | Draft for CLT Approval |

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1.0 Introduction

- 1.1 Risk Management is about managing opportunities and threats to objectives and in doing so helps create an environment of “no surprises”. It is a crucial element of good management and a key part of corporate governance. It should be viewed as a mainstream activity and something that is an integral part of the management of the organisation, an every day activity.
- 1.2 Risk Management is already inherent in much of what the Council does. Good practices like good safety systems, procurement and contract regulations, financial regulations and internal control are not labelled Risk Management but these and many other processes and procedures are used to manage risk.

2.0 Purpose of the Guidance

- 2.1 The purpose of this Enterprise Risk Management Guidance is to establish a framework for the systematic management of risk, which will ensure that the objectives of the Council’s Risk Management policy are realised.

| The Purpose of this Guidance |
|---|
| Define what Risk Management is about and what drives Risk Management within the Council |
| Set out the benefits of Risk Management and the strategic approach to Risk Management |
| Outline how the Risk Management will be implemented |
| Formalise the Risk Management process across the Council |

- 2.2 An overview of this framework is detailed in Appendix 1.

3.0 Approval, Communication, Implementation and Review

- 3.1 The Enterprise Risk Management Guidance has been adopted by the Corporate Leadership Team and has been approved by the Council via the Audit Committee. It has been issued to:
- All Members of the Council
 - Corporate Leadership Team
 - All Heads of Service
 - Key Stakeholders
 - Other interested parties such as External Audit
- 3.2 It has been placed on the Council’s intranet site so that all members of staff can have access and easily refer to it. It is included on all new staff’s corporate induction. Therefore all individual members of staff are aware of both their roles and responsibilities for Risk Management within the Council and their service (depending on their own role within the Council). Risk Management is included within the Council’s performance management framework so that staff and managers are aware of how Risk Management contributes to the achievement of the Council’s and Service objectives.
- 3.3 All elected Members have been issued with a copy of the Guidance. It is part of all newly elected Members’ induction to the Council it has been included as a

training area within the Members Training and Development Programme. The Guidance will be reviewed annually by the Audit Committee.

4.0 What is Enterprise Risk Management?

4.1 Risk is an unexpected event or action that can adversely affect the Council's ability to achieve its objectives and successfully execute its strategies. The event may be foreseeable but one over which the Council has little or no control other than to manage or mitigate its impacts. It can be a positive (an opportunity) or negative (a threat). Risk Management is the process by which risks are identified, evaluated and controlled.

4.2 It has critical links to the following areas:

- Corporate governance;
- Community focus;
- Structure and processes;
- Standards of conduct;
- Service delivery arrangements; and
- Effective use of resources.

4.3 Enterprise Risk Management can be defined as:

“The management of integrated or holistic business risk and opportunity in a manner consistent with the virtues of economy, efficiency and effectiveness. In essence it is about making the most of opportunities (making the right decisions) and about achieving objectives once those decisions are made. The latter is achieved through controlling, transferring and living with risks”.

4.4 Risk Management therefore is essentially about identifying the opportunities, risks and weaknesses that exist within the Council. A holistic approach is vital to ensuring that all elements of the Council are challenged including decision making processes, working with partners, consultation processes, existing policies and procedures and also the effective use of assets – both staff and physical assets. This identification process is integral to all our strategic, service and work planning.

4.5 Once the risks have been identified the next stage is to prioritise them to identify the key risks to the organisation moving forward. Once prioritised it is essential that steps are taken to then effectively manage these key risks. The result is that significant risks that exist within the Council can be mitigated to provide the Council with a greater chance of being able to achieve its objectives. Included within this should also be a consideration of the positive or ‘opportunity’ risk aspect.

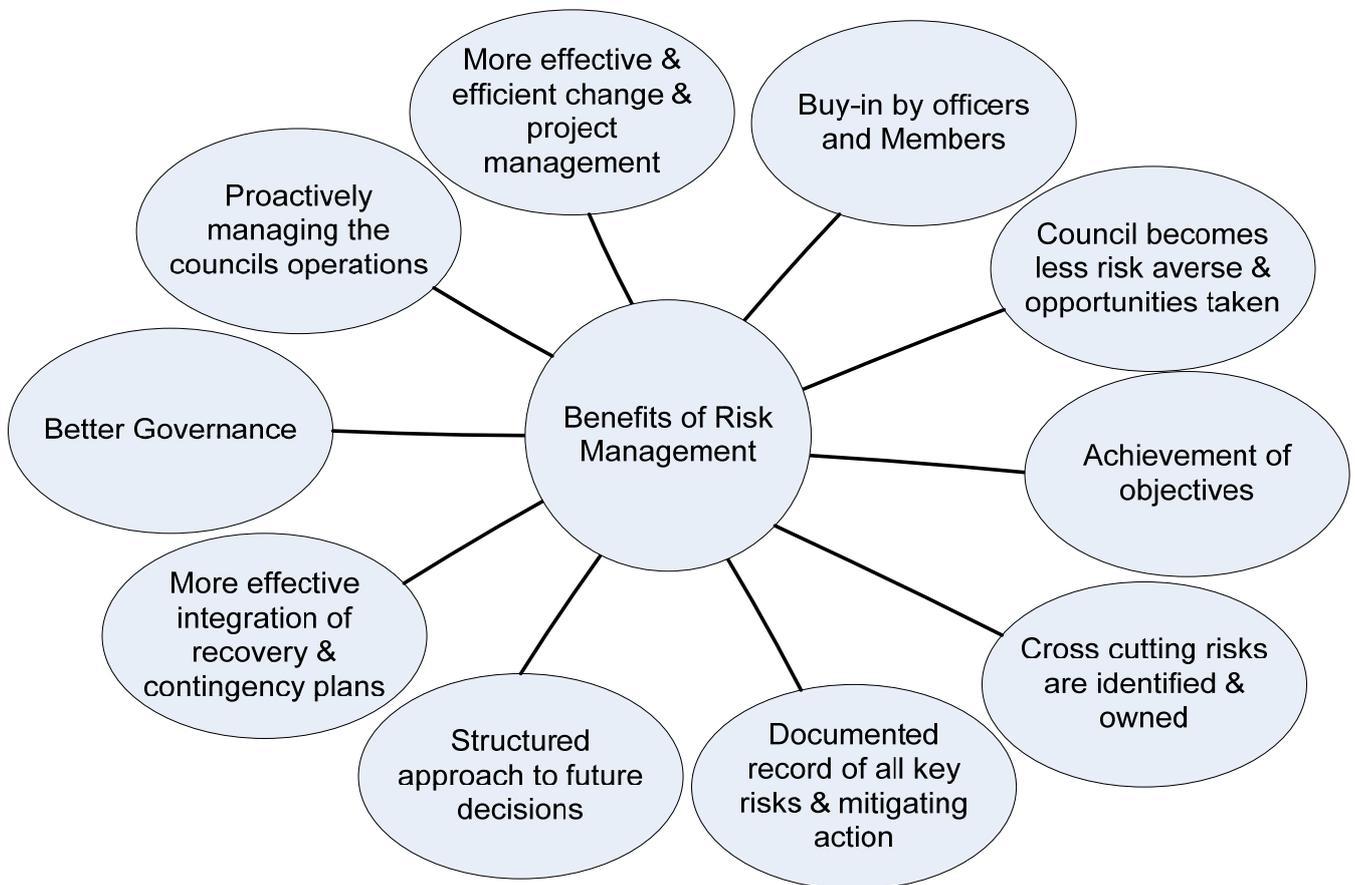
4.6 Risk Management needs to be seen as a strategic tool, it will become an essential part of effective and efficient management and planning. Risk Management is a key skill that is assessed in the Council's ‘Skill's Audit’ and is a core task included within the ‘Analysis and Judgement’ criteria of the Behaviours Framework.

4.7 Risk Management will improve the business planning and performance management processes, strengthen the ability of the Council to achieve its objectives and enhance the value of the services provided.

4.8 In order to strive to meet our Vision and strategic objectives, the Council has recognised the need to further embed Risk Management arrangements. The desired outcome is that risks associated with these objectives can be managed and the potential impact limited, providing greater assurance that the Vision will be achieved.

5.0 Benefits of Risk Management

5.1 Successful implementation of Risk Management will produce many benefits for the Council if it becomes a living tool. These include:



6.0 Critical Success Factors

6.1 To develop a framework which:

| Reference | Critical Success Factors |
|-----------|--|
| 1 | Enables the Council's performance and take advantage of opportunities. |
| 2 | Focus on the major risks to our strategies and objectives. |
| 3 | Provide a clear picture of the major risks the Council faces, their nature, potential impact and their likelihood. |
| 4 | Establish a shared and unambiguous understanding of what risks will be tolerated. |
| 5 | Develop an awareness of our ability to control the risks we have identified. |
| 6 | Is embedded in our planning and decision-making processes. |
| 7 | Actively involve all those responsible for planning and delivering services. |
| 8 | Clarify and establish roles, responsibilities and processes. |
| 9 | Enable and empower managers to manage those risks in their area of responsibility. |
| 10 | Capture information about key risks from across the Council. |
| 11 | Include regular risk monitoring and review of the effectiveness of internal control. |
| 12 | Is non-bureaucratic, cost efficient and sustainable. |

7.0 Relationship between Risk Management and Internal Controls

7.1 The Council recognises that Risk Management is an integral part of its internal control environment. Its Financial Regulations states that internal controls are required to manage and monitor progress towards strategic objectives.

7.2 The system of internal control also provides measurable achievement of:

- Efficient and effective operations;
- Reliable financial information and reporting;
- Compliance with laws and regulations; and
- Risk Management.

7.3 Business Assurance via Internal Audit, when evaluating risks during the course of its Internal Audit work, will categorise risks as per this Guidance and will analyse their likelihood and impact in accordance with the qualitative measures / tables contained in this Guidance, thus further integrating and embedding our Risk Management Guidance into the Council's internal control environment.

8.0 Risk Management, Business Continuity and Emergency Planning

- 8.1 There is a link between these areas. However it is vital for the success of Risk Management that the roles of each, and the links, are clearly understood. The Council recognises that there is a link between Risk Management, Business Continuity Management and Emergency Planning. This is demonstrated by the lead in all three issues being taken by the Corporate Leadership Team.

Business continuity management

- 8.2 Business continuity management is about trying to identify and put in place measures to protect the Council's priority functions against catastrophic risks that can stop it in its tracks. There are some areas of overlap e.g. where the I.T. infrastructure is not robust then this will feature as part of the relevant Risk Register and also be factored into the business continuity plans.

Emergency planning

- 8.3 Emergency planning is about managing the response to those incidents that can impact on the community (in some cases they could also be a business continuity issue) e.g. a plane crash is an emergency, it becomes a continuity event if it crashes on the office!

9.0 Risk Management in Projects, Partnerships and Health and Safety

- 9.1 It is recognised that Risk Management needs to be a key part of the ongoing management of projects, Health and Safety and partnerships.

Project / Programme management

- 9.2 There is a consistent and robust approach to Risk Management used in projects, both at Project Initiation Document stage and throughout the duration of the project. Written guidance is available on the intranet.
- 9.3 Project risks are managed via Work.Together.

Partnerships

- 9.4 The Council has a Partnership Protocol, of which Risk Management is a key aspect. The Partnership Protocol requires that this approach to risk management is adhered to. The Partnership Protocol is available on the intranet.

Health and Safety

- 9.5 The Council has a Health and Safety Policy, of which management of risk is a critical aspect. Health and safety risks are managed in accordance with Health and Safety Executive guidance and are recorded in WISE. The Health and Safety Policy is available on the intranet.

10.0 Strategic Approach to Risk Management

10.1 In order to formalise and structure Risk Management the Council has recognised that there are obvious and clear links between Risk Management and: strategic and financial planning; policy making and review; and performance management.

10.2 The links are as follows:

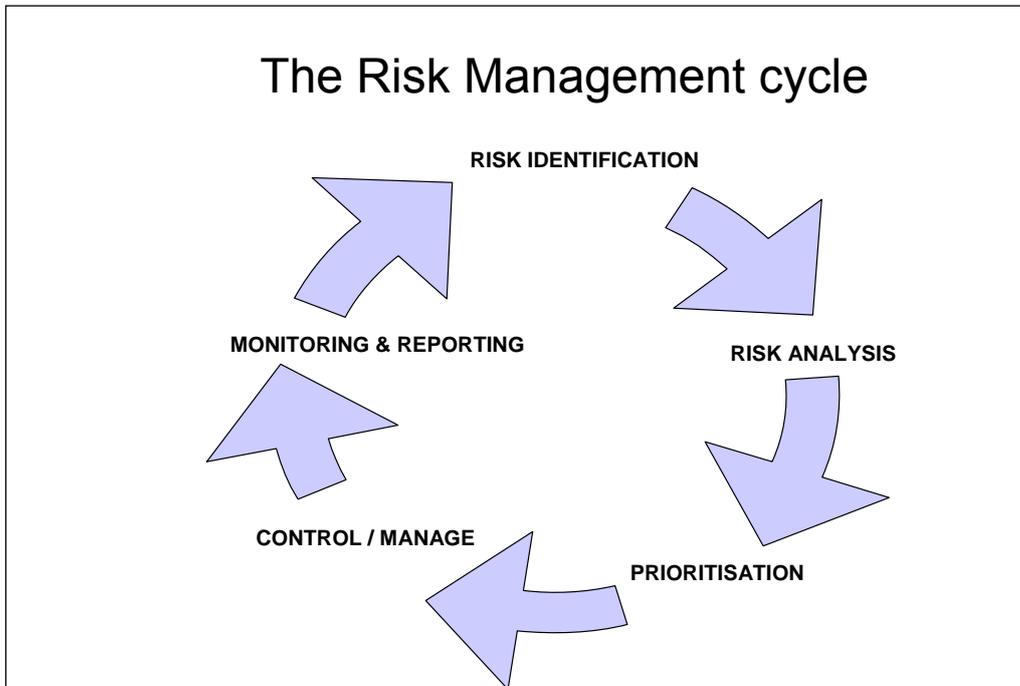
- Each priority and underlying principle identified in the Vision has been translated into the various Service Delivery Plans (SDP's). During the lifetime of the Vision there will be direct and indirect threats to successfully achieving them (and these are the risks).
- Measurement of performance against the key objectives, performance indicators and key tasks.
- Management of Key Strategic Risks which could affect the delivery of the above Council objectives/targets is undertaken by the Corporate Leadership Team.
- Individual SDP's feed from the higher key objectives of the Council, and explain how the Service helps to deliver the Council's objectives in respect of the Council's vision and values.
- An assessment of service risks forms part of all SDP's, which is an identification and prioritisation of the most significant risks faced in delivering the key elements of the SDP, with actions identified to mitigate and manage these. These risks are managed as part of the action plans within the SDP's.
- Performance management is also cascaded down to individual employees via the Council's appraisal process which ensures that all employees have clear accountabilities and objectives linked to those of the service and the Council. To this end, Risk Management is cascaded down to staff as a corporate objective which aims to gain their support and awareness to ensure effective management of risk within the Council.

11.0 Implementation Guidance Risk Management

The risk management process

Implementing this Guidance involves a 5-stage process to identify, analyse, prioritise, manage and monitor risks as shown in figure 1. This section will outline the approach.

Figure 1: The Risk Management Cycle



Stage 1 – Risk Identification

The first step is to identify the ‘key’ risks that could have an adverse effect on or prevent key business objectives from being met. It is important that those involved with the process clearly understand the service or Council’s key business objectives i.e. ‘*what it intends to achieve*’ in order to be able to identify ‘*the risks to achievement*’. It is important to consider the relevant SDP in a broader context, i.e. not focusing solely on specific detailed targets but considering the wider direction and aims of the service and what it is trying to achieve.

When identifying risks it is important to remember that as well as the ‘direct threats’, risk management is about ‘making the most of opportunities’ e.g. making bids for funding, successfully delivering major projects and initiatives, pursuing beacon status or other awards, taking a national or regional lead on policy development etc.

Using Appendix 2 as a prompt, various techniques can then be used to begin to identify ‘key’ or ‘significant’ business risks including: -

- A ‘idea shower’ session;
- Own (risk) experience;
- ‘Strengths, Weaknesses, Opportunities and Threats’ analysis or similar;
- Experiences of others - can we learn from others’ mistakes?
- Exchange of information/best practice with other Councils, organisations or partners.

It is also recommended that a review of published information such as other SDP's, strategies, financial accounts, press releases, and inspectorate and audit reports be used to inform this stage, as they are a useful source of information.

The process for the identification of risk should be undertaken for projects (at the beginning of each project stage), partnerships and for all major revenue and capital contracts. Details of who contributes to these stages are explained further in the 'Roles, Assignments and Responsibilities' section of the Enterprise Risk Management Policy.

Risks, both opportunity and threats, identified should be recorded in a Risk Register as per figure 2. A standard template for recording risks is on the risk management area of grapevine.

Figure 2: Risk Register Summary

| Risk Register for: | | Corporate Risk Register | Previous Review | 19/11/09 | Updated on | 23/03/2010 |
|--------------------|---|---|-----------------|---------------------|------------|--|
| Ref | Risk (Cause & Consequence) | Potential Impacts | Officer Lead | Executive Lead | Risk Score | Further Actions to Mitigate Risk |
| (1) | There needs to be clarity and agreement on key priorities and objectives. This should be articulated in the Corporate Plan and should inform a shared agenda which has buy-in across the whole organisation <i>Risk of organisation not buying into a shared agenda.</i> | Organisational dissonance, Ability to engage on wider levels affected, Disharmony across organisation, Lack of clarity, Different objectives / targets , Delivery affected, Fall behind neighbours, | HT | DL | H | Refresh Corporate Plan with new Executive. Refresh New Business Plan 2010/11 with new Executive. Refreshed Corporate Plan to be approved by Council. |
| | | | Risk Appetite | Direction of Travel | | |
| | | | L | ▼ | | |

Stage 2 – Risk Analysis

The information that is gathered needs to be analysed into risk scenarios to provide clear, shared understanding and to ensure the potential root cause of the risk is clarified. Risk scenarios also illustrate the possible consequences of the risk if it occurs so that its full impact can be assessed.

There are 2 parts to a risk scenario:-

- The cause describes the situation and/or event (that may be perceived) that exposes the organisation to a risk; and
- The consequences are the events that follow in the wake of the risk.

Risk Scenario

Figure 3: Example of the structure of a risk scenario

| Cause | Consequence |
|---|---|
| <p>Statement of fact or perception about the Council, service or project that exposes it to an event. Include the event that could occur in a positive or negative impact on the objectives being achieved</p> <p>LIKELIHOOD</p> | <p>The positive or negative impact:</p> <ul style="list-style-type: none">• How big?• How bad?• How much?• Who is affected? <p>IMPACT</p> |

Each risk scenario is logged on the respective Risk Register (example template Figure 4). These registers could be potentially strategic, against a specific SDP, or relating to a project or partnership. The purpose of the Risk Action Log is to store details of the risk, its likelihood and impact and mitigation activity for each risk. An example of the risk action log is at Figure 4.

Risk Ref (14)

Control / Manage

Risk (Cause ...leading to...Consequence)

Risk Rating

Impact Score

Likelihood Change

Appetite

Action Required *Monitor Only*

Officer Lead

Executive Lead

Link to Corporate/Service Objectives

Link to other risks registers/risks

Potential Impacts

Existing Controls

| Additional Actions to Mitigate Risk | Action Owner | Implementation Date | Review Date |
|-------------------------------------|--------------|---------------------|-------------|
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |
| | | | |

For further information on the project Risk Register template and guidelines, please refer to the project management methodology.

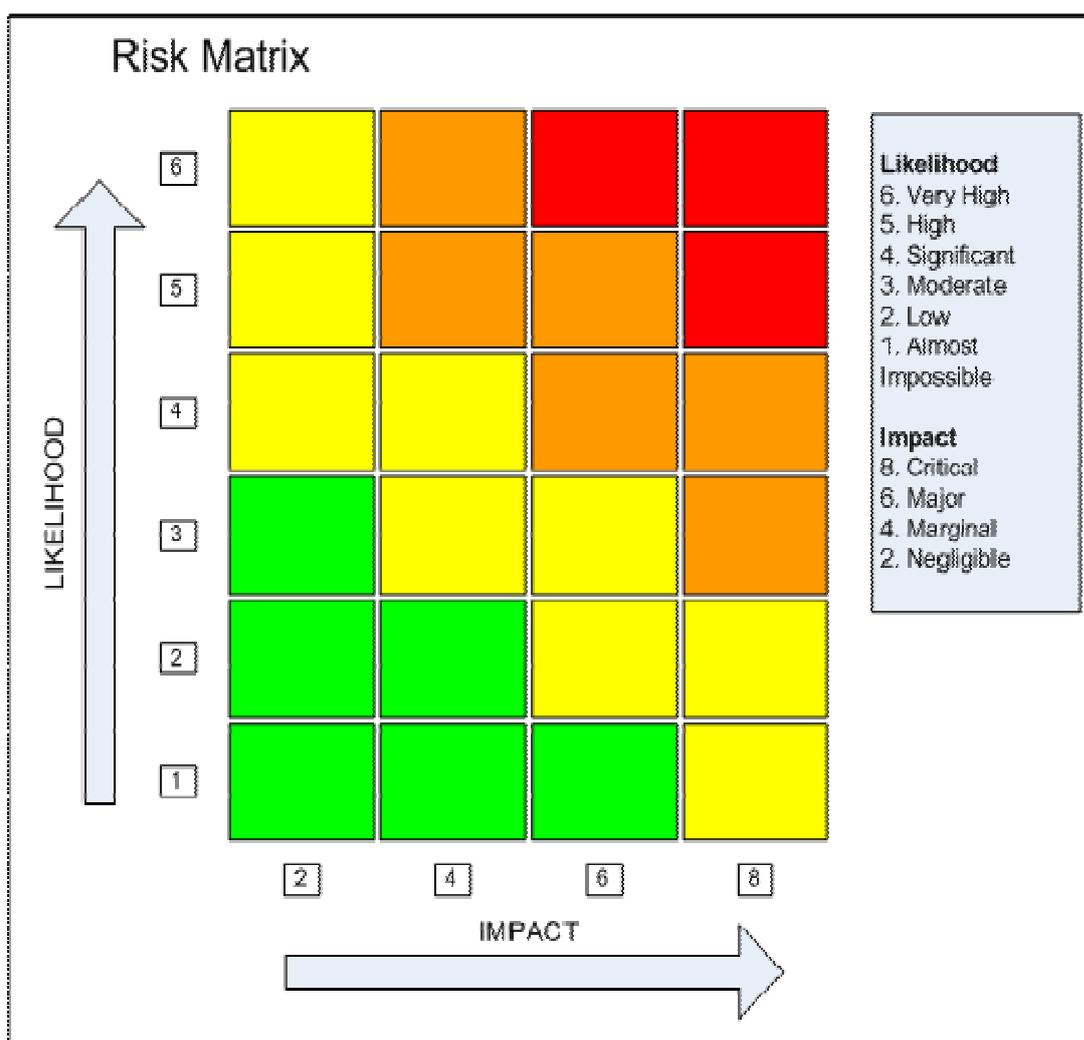
Stage 3 – Prioritisation

Following identification and analysis the risks will need to be evaluated in a facilitated session, with the workshop participants looking at the risk scenarios and deciding their ranking according to the potential likelihood of the risk occurring and its impact if it did occur. A matrix is used to plot the risks (Figure 5) and once completed this risk profile clearly illustrates the priority of each risk.

When assessing the potential likelihood and impact the risks must be compared with the appropriate objectives e.g. corporate objectives for the strategic risk profile, and service objectives for the SDP risk profile. The challenge for each risk is how much impact it could have on the ability to achieve the objective and outcomes. This allows the risks to be set in perspective against each other.

At the beginning of this stage a timeframe needs to be agreed, and the likelihood and impact should be considered within the relevant timeframe. Often a 3-year time horizon is used at strategic level, with perhaps a 1-year timeframe used at service level, to link with service delivery planning. The likelihood and impact should also be considered with existing controls in place, not taking future ones into account at that time.

Figure 5: Example of the Council risk matrix and filters



The matrix is also constructed around 4 filters - these being red (very high), orange (high), amber (medium) and green (low). The red and orange filtered risks are of greatest priority. Amber risks represent moderate priority risks. Green risks are low priority but should be monitored.

If there are numerous red, orange and amber risks to be managed it is prudent to cluster similar risks together. This is to aid the action planning process as a number of risks can be managed by the same or similar activity. Each cluster should be given a title e.g. recruitment and retention, staff empowerment etc. This technique of clustering should only be used when there are many risks to be managed e.g. in excess of 15 red and amber risks and where risks share common causes and consequences and therefore could be managed in a similar way.

Stage 4 – Control / Manage

This is the process of turning 'knowing' into 'doing'. It is assessing whether to control, accept, transfer or terminate the risk on an agreed 'risk appetite'. Risks may be able to be: -

Controlled - It may be possible to mitigate the risk by 'managing down' the likelihood, the impact or both. The control measures should, however, be commensurate with the potential frequency, impact and financial consequences of the risk event.

Accepted - Certain risks may have to be accepted as they form part of, or are inherent in, the activity. The important point is that these risks have been identified and are clearly understood.

Transferred - to another body or organisation i.e. insurance, contractual arrangements, outsourcing, partnerships etc.

Terminated - By ending all or part of a particular service or project.

It is important to recognise that, in many cases, existing controls will already be in place. It is therefore necessary to look at these controls before considering further action. It may be that these controls are not effective or are 'out of date'.

The potential for controlling the risks identified will be addressed through SDP's. Most risks are capable of being managed – either by managing down the likelihood or impact or both. Relatively few risks have to be transferred or terminated. These service plans will also identify the resources required to deliver the improvements, timescale and monitoring arrangements.

Existing controls, their adequacy, new mitigation measures and associated action planning information is all recorded on the Risk Register, including ownership of the risk and allocation of responsibility for each mitigating action. Full details of the risk mitigation measures that are to be delivered are likely to be recorded in the respective business plans and cross reference should be made to this in the Risk Registers.

A further judgement which should be made is the 'target risk score' and 'target evaluation', which is where the risk could be managed to, should the identified controls be successfully implemented.

Consideration should also be given here as to the ‘Cost-Benefit’ of each control weighed against the potential cost / impact of the risk occurring. N.B. ‘cost / impact’

| | |
|--|--|
| High cost/low impact of mitigating risk | High cost/big impact of mitigating risk |
| Low cost/low impact of mitigating risk | Low cost/big impact of mitigating risk |

Stage 5 – Monitoring & Reporting

The Corporate Leadership Team is responsible for ensuring that the key risks on the Corporate Risk Register are managed and the progress with the risk mitigation measures should be monitored at appropriate intervals. 2nd and 3rd Tier Managers are responsible for ensuring that the key risks in the Risk Registers linked to respective SDP’s are managed. It is recommended that the ‘red risks’ feature as a standing item on ‘3rd Tier Managers’ meeting agendas.

On a quarterly basis, the Corporate and SDP Risk Registers should be reviewed and where necessary risks re-prioritised. Risks should be amended so they reflect the current situation, obsolete risks should be deleted and new risks identified. This ensures that the Risk Registers and resulting risk mitigation measures are appropriate for the current service and corporate objectives. The quarterly review of the Corporate Risk Register must be undertaken by Corporate Leadership Team and the SDP Registers must be reviewed / updated by the respective 2nd and 3rd Tier Managers with their management teams.

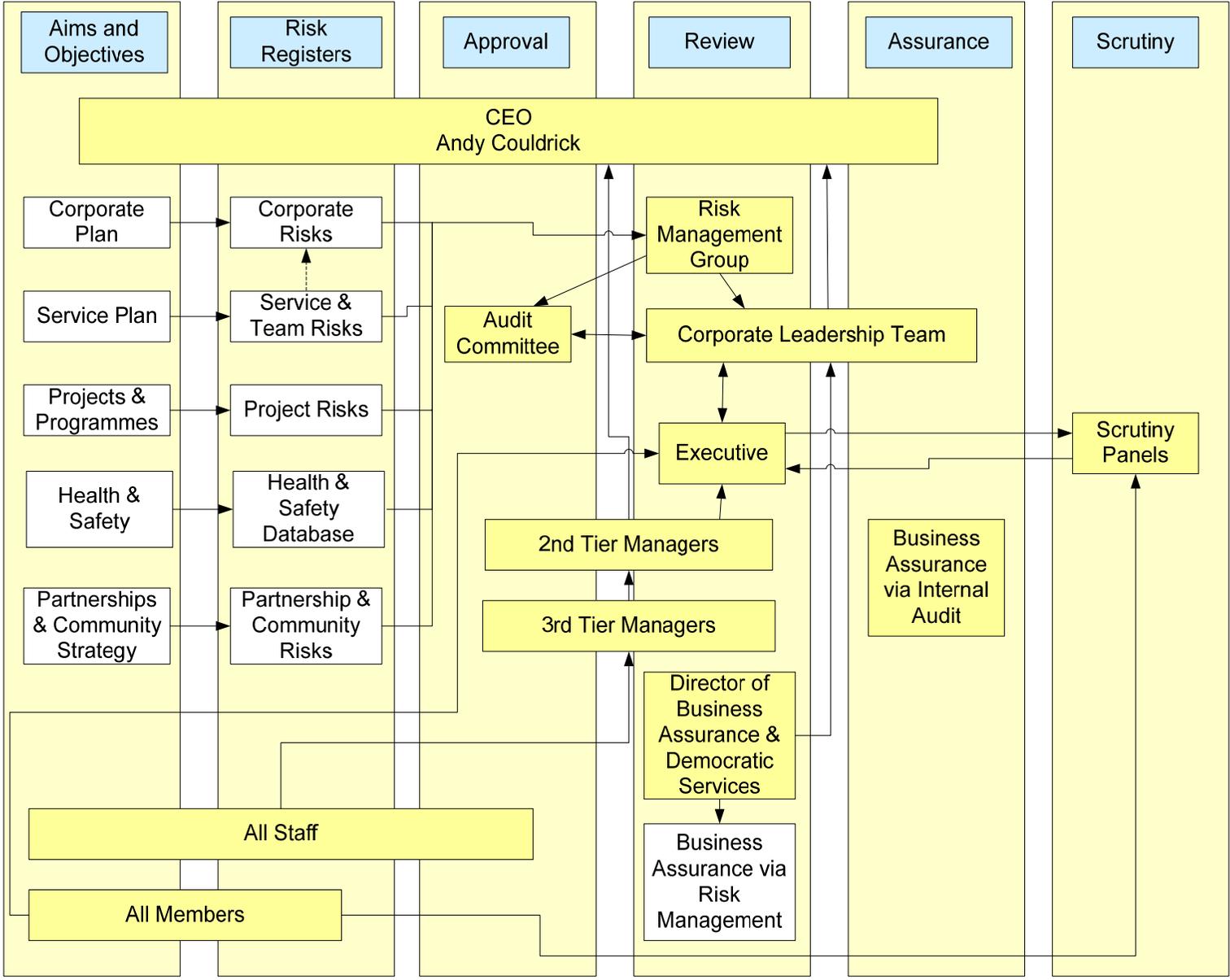
During the year new risks are likely to arise that have not previously been considered on the existing Risk Registers. Also the environment in which the risks exist will change making some risks more critical or others less important. Every quarter the respective Risk Registers and matrices at each level should be updated to reflect these changes. If such risks require Corporate Leadership Team ownership and management then they should be incorporated into the Corporate Risk Register. If the management of such risks is more appropriate at a service level then it should be included in the respective SDP Risk Register. This will need to be undertaken on a quarterly basis by Corporate Leadership Team and 2nd and 3rd Tier Managers.

It is recognised that some service risks have the potential to impact on the corporate objectives and these will often be the red risks on the matrix. Every quarter, the Risk Management Group will collate the red risks from SDP’s, which will be fed into Corporate Leadership Team where a decision will be taken on whether to prioritise any of these risks on the strategic risk matrix and include them on the Corporate Risk Register (owned by Corporate Leadership Team). At the relevant Corporate Leadership Team session to review risk management, each “2nd Tier Manager will also feedback the headline risks from their individual areas.

Quarterly, the Risk Management Group will also collate the highest level and most common operational risks (those risks of a more health and safety or liability perspective) from a service level for communication and if required, consideration by Corporate Leadership Team.

After this is undertaken quarterly, Corporate Leadership Team will report the headline risks to the Audit Committee and Executive.

Overview of Risk Management Framework



Appendix 2 – Example of Risk Categories

| Risk | Definition | Examples |
|-------------------------------------|---|---|
| Political | Associated with the failure to deliver either local or central government policy or meet the local administration's manifest commitment | New political arrangements, Political personalities, Political make-up |
| Economic | Affecting the ability of the Council to meet its financial commitments. These include internal budgetary pressures, the failure to purchase adequate insurance cover, external macro level economic changes or consequences proposed investment decisions | Cost of living, changes in interest rates, inflation, poverty indicators |
| Social | Relating to the effects of changes in demographic, residential or socio-economic trends on the Council's ability to meet its objectives | Staff levels from available workforce, ageing population, health statistics |
| Technological | Associated with the capacity of the Council to deal with the pace/scale of technological change, or its ability to use technology to address changing demands. They may also include the consequences of internal technological failures on the Council's ability to deliver its objectives | IT infrastructure, Staff/client needs, security standards, Business Continuity. |
| Legislative | Associated with current or potential changes in national or European law | Human rights, appliance or non-appliance of TUPE regulations |
| Environmental | Relating to the environmental consequences of progressing the Council's strategic objectives | Land use, recycling, pollution |
| Competitive | Affecting the competitiveness of the service (in terms of cost or quality) and/or its ability to deliver best value | Fail to win quality accreditation, position in league tables |
| Customer/ Citizen | Associated with failure to meet the current and changing needs and expectations of customers and citizens | Managing expectations, extent of consultation |
| Managerial/ Professional | Associated with the particular nature of each profession, internal protocols and managerial abilities | Staff restructure, key personalities, internal capacity |
| Financial | Associated with financial planning and control | Budget overspends, level of Council tax & reserves |
| Legal | Related to possible breaches of legislation | Client brings legal challenge |
| Partnership/ Contractual | Associated with failure of contractors and partnership arrangements to deliver services or products to the agreed cost and specification | Contractor fails to deliver, partnership agencies do not have common goals |
| Physical | Related to fire, security, accident prevention and health and safety | Offices in poor state of repair, use of equipment |

Impact

| Score | Level | Description | |
|-------|-------------------|---|--|
| 8 | Critical | Critical impact on the achievement of objectives and overall performance. High impact on costs and / or reputation. Very difficult and possibly long term to recover. | <ul style="list-style-type: none"> • Unable to function without aid of Government or other external Agency • Inability to fulfil obligations • Medium - long term damage to service capability • Severe financial loss – supplementary estimate needed which will have a critical impact on the council’s financial plan and resources are unlikely to be available. • Death • Adverse national publicity – highly damaging, severe loss of public confidence. • Litigation certain and difficult to defend • Breaches of law punishable by imprisonment |
| 6 | Major | Major impact on costs and objectives. Serious impact on output and / or quality and reputation. Medium to long term effect and expensive to recover. | <ul style="list-style-type: none"> • Significant impact on service objectives • Short – medium term impairment to service capability • Major financial loss - supplementary estimate needed which will have a major impact on the council’s financial plan • Extensive injuries, major permanent harm, long term sick • Major adverse local publicity, major loss of confidence • Litigation likely and may be difficult to defend • Breaches of law punishable by fines or possible imprisonment |
| 4 | Marginal | Significant waste of time and resources. Impact on operational efficient, output and quality. Medium term effect which may be expensive to recover. | <ul style="list-style-type: none"> • Service objectives partially achievable • Short term disruption to service capability • Significant financial loss - supplementary estimate needed which will have an impact on the council’s financial • Medical treatment require, semi- permanent harm up to 1 year • Some adverse publicity, need careful public relations • High potential for complaint, litigation possible. • Breaches of law punishable by fines only |
| 2 | Negligible | Minimal loss, delay, inconvenience or interruption. Short to medium term affect. | <ul style="list-style-type: none"> • Minor impact on service objectives • No significant disruption to service capability • Moderate financial loss – can be accommodated • First aid treatment, non-permanent harm up to 1 month • Some public embarrassment, no damage to reputation • May result in complaints / litigation • Breaches of regulations / standards |

Likelihood

| Score | Level | Description | | | | |
|-------|--------------------------|--|----------|-----------------------------|----------------------------|--|
| 6 | Very High | Certain. | >95% | Annually or more frequently | >1 in 10 times | An event that is has a 50% chance of occurring in the next 6 months or has happened in the last year. This event has occurred at other local authorities |
| 5 | High | Almost Certain. The risk will materialise in most circumstances. | 80 – 94% | 3 years + | >1 in 10 – 50 times | An event that has a 50% chance of occurring in the next year or has happened in the past two years. |
| 4 | Significant | The risk will probably materialise at least once. | 50 – 79% | 7 years + | >1 in 10 – 100 times | An event that has a 50% chance of occurring in the next 2 years or has happened in the past 5 years. |
| 3 | Moderate | Possible the risk might materialise at some time. | 49 – 20% | 20 years + | >1 in 100 – 1,000 times | An event that has a 50% chance of occurring in the next 5 or has happened in the past 7 years. |
| 2 | Low | The risk will materialise only in exceptional circumstances. | 5 – 19% | 30 years + | >1 in 1,000 – 10,000 times | An event that has a 50% chance of occurring in the next 10 year or has happened in the past 15 years. |
| 1 | Almost Impossible | The risk may never happen. | < 5% | 50 years + | >1 in 10,000 + | An event that has a less than 5% chance of occurring in the next 10 years and has not happened in the last 25 years. |