CP 3.4 Risk Management Strategy 2016

1. Executive Summary

1.1 Background

Managing risk is about managing uncertainties. For Transport Focus, risk needs to be considered as something that impacts on credibility and reputation of the organisation, as this will affect our ability to influence and improve services for rail passengers. In order to demonstrate that Transport Focus is managing risks, an enterprise risk management (ERM) framework has been established. This means that both threats and opportunities should be considered and managed.

The framework is based on the premise that risks should be managed where they are best managed and that therefore:

- risks need to be considered as either strategic, programme / project or operational; and
- Transport Focus's appetite for risk taking needs to be established accordingly, and annually reviewed

1.2 Structure

Strategic risks are those which need to be managed by the management team; other business and project teams will have their own risk register. Where heads of team and project managers identify significant project risks which may have an impact on Transport Focus these may need to be escalated to the strategic risk register to be managed at management team level.

1.3 Risk identification

All staff can propose risks for entry onto the risk registers, but the strategic risk register will only include those risks which are considered significant to Transport Focus as a whole.

1.4 Risk owner

The risk owner is accountable for managing the risk, and where necessary taking further action to mitigate the impact. A series of quarterly reviews across Transport Focus helps to ensure risk management is consistent and the reporting remains accurate.

1.5 Risk assessment

All identified risks must be assessed for impact, which is a function of severity and likelihood. After the initial population of a risk register, all risks should be identified and impact calculated at team level. These assessments should take into account actions already taken, or procedures already in place which reduce either the severity of the risk or the likelihood of the risk arising. These are called controls.

Where impact is high (see section 2 for details) the risk should be communicated to the CEO team to enable MT to discuss it. As a general rule medium and low impact risks should be managed at team level.

1.6 Mitigation of risk

Once a risk has been identified a decision must be made on whether the risk can be tolerated, or further action should be taken to mitigate the risk either to reduce its impact or probability. If further action is required this should be noted on the register, together with a target date for completing the action.

1.7 Review of the risk registers

Team and project risk registers are reviewed quarterly with risk owners. The strategic risk register is reviewed each month by the management team, and reported to the Audit and Risk Assurance Committee (ARAC) quarterly. The strategic risk register is the responsibility of the CEO (in his role as Accounting Officer) and management team. ARAC reviews the risk register, seeks clarification of risk ratings and control measures, reviews team risks with owners annually, and reports to the Board half yearly.

1.8 Risk appetite

The Board sets risk appetite for strategic, programme and operational risks annually as part of the business planning process.

Endorsed by the Audit Committee May 2007
Updated April 2008(JC)
Updated July 2011 after Audit Committee and Board endorsed 2010 risk review (JC)
Minor amends November 2014(JC)
Review of Risk Management Strategy (Oct 2016) approved by Board (Nov 16) (JC)

2. Detailed Risk Management Framework

2.1 Introduction and Purpose

Risk management is about managing uncertainties - threats and opportunities. It is about creating an environment where unexpected events do not render the organisation ineffective. By managing threats Transport Focus will be in a stronger position to deliver its objectives. By managing opportunities the organisation may be in a better position to improve the transport user experience.

Risk taking – based on agreed risk appetite – should mean recognising and rewarding problem prevention in practice and encouraging all staff to actively participate in the risk identification and management process. This means a no blame culture – balancing individual's responsibility with an environment in which individual mistakes are tolerated, quickly learned from and used for the benefit of the whole of Transport Focus. We must celebrate successes and reward those for sharing lessons learnt from the things that did not go according to plan.

The threats that need to be managed are, in the broadest sense, those potential events that could prevent Transport Focus delivering its business plan and meeting any targets that have been agreed. But for Transport Focus, the ultimate impact of risk is damage to the organisation's credibility and reputation, and therefore its ability to influence. When management of risk goes well it often remains unnoticed. When it fails, the consequences can be significant and high-profile. Any responsible organisation needs to avoid this – hence the need for effective risk management.

A risk management strategy is an essential element of planning and good performance management. In agreement with DfT (through the Framework Document required by *Managing Public Money*) Transport Focus sets out its vision, mission and its key objectives. These are translated into the annual business plan, through to actions devolved to individual staff. Success of actions will be monitored in terms of achievement of the business plan. Risk management needs to be integrated into this planning and performance management process, and must be taken into account when setting targets and planning the resources needed to achieve the business plan. .

This risk strategy describes the processes in place to link, identify, assess, address, review and report risks, and provide assurance and good governance.

2.2 Principles

The principles that underpin Transport Focus approach to risk are:

- Aligning risk appetite and business strategy - management set a strategy, identify key outputs required to deliver it, and consider risk appetite going forward, which the board is asked to endorse. This is necessary to frame risk response arrangements, which should then be robust and proportionate.

- Risk is everyone's business, not just that of the management team (see annex 1)

- Being accountable - processes and data will be open to review by our auditors and we will respond to the improvements they suggest; and

- Considering opportunities and encourage appropriate risk-taking, with a view to fostering an innovative approach to policy making and service delivery, by ensuring risk is managed at the lowest appropriate level. This helps to embed a risk aware culture throughout the organisation.

2.3 Identifying risks

For Transport Focus, the ultimate impact of risk is damage to the organisation's credibility and reputation, and therefore its ability to influence. Processes need to identify risks within the organisation, as well as taking into consideration major risks facing our stakeholders, to inform the business planning process.

A 'risk' is something that may have an impact on the achievement of our vision and objectives. It may come from outside the organisation, or may arise from shortcomings of our own systems and procedures. Risks will be assessed in terms of how likely they are, and the magnitude of the consequences, if they were to occur. The main types of risk that Transport Focus is likely to encounter are:

Strategic risks: these include, for example, Transport Focus's continued existence, and its overall level of resourcing, or its capacity to operate coherently and effectively

Programme risks: inadequate forward planning, policy decisions or threats to key work themes; project risk analysis both at point of approval and during its lifetime

Operational risks: these include the capacity to deal with the media, delivery of operational plans, for example, recruitment difficulties, or IT failures and financial risks arising from spending, fraud or impropriety, or insufficient resources.

The approach to risk management needs to be flexible enough to accommodate new and previously unforeseen risk. Risk management will play an important role in identifying risks associated with policy, and in 'horizon scanning' for likely future risks that may affect our policy direction. **Risk must feature as a key issue at all team meetings.**

The identification of risks is a continuous process and all staff have a key role to play, both individually and as a part of their teams - it is **not** the sole responsibility of the management team. Systematically identifying risks will enable risks to be assessed and dealt with and it will also help to identify new opportunities. All projects will consider the risks involved and ensure these must captured and addressed, as part of the project.

2.4 Assessing risks

Risks identified should be communicated clearly in terms of their likely impact. This is a simple process but it should be remembered that assessing risks is an art and not a science. This is why the process is reviewed, and **repeated** after mitigating measures have been identified.

*Identifying impact – **use Risk form A available on Connect***

IMPACT	**=**	**SEVERITY**	**X**	**LIKELIHOOD**

The following table illustrates how severity and likelihood may be determined:

Level	Severity	Likelihood
1	Insignificant	Rare
2	Minor	Unlikely
3	Moderate	Possible
4	Major	Likely
5	Catastrophic	Almost certain

The benefit of assessing risk –either initial or residual – in a **meeting environment** is that the determination requires agreement – and therefore discussion and, perhaps, debate.

No risk assessment should ever be made by an individual acting alone.

Considering impact

Having calculated the impact, it is then necessary to see it in context, ie to determine whether the risk constitutes a low, medium or high risk to business objectives. This determination in reached by reference to the following chart.

Severity

5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

Likelihood

All risks with a low (green) or medium (yellow) impact value should be managed at the level from which they were identified, *unless there are other compelling reasons not to do so.* Each team must determine how it deals with these various risks, and ensure reasons are recorded. Teams may, for example, assess a particular programme or operational risk as being medium in impact terms but having strategic implications – in such a case it makes sense to deal with it as a red risk.

All high (red) impact value risks should be passed to the CEO team so that they may be considered by MT at the next available opportunity.

What might an impact value suggest?

15+	High impact- major long term impact on the reputation of Transport Focus, loss of stakeholder confidence, objectives unmet, significant financial cost; therefore high Priority – these require active, specific and immediate management attention to reduce/control uncertainty
8-12	Medium impact- short term reputational damage, reprioritising of activities, medium term financial costs; therefore medium priority – these nevertheless require active attention as part of ongoing management agenda to ensure uncertainty is addressed. Heads of team managing risks in this impact category will often find themselves discussing the issues with MT (collectively or individually) even when retaining ownership of the risk.
1-6	Low impact - unlikely to affect reputation, little impact on operations, minimal financial costs; therefore low priority on a corporate level but should be managed at team level. They should be escalated immediately if exposure increases, and reviewed periodically

Dealing with high impact value risks

Management team will review and assess each 'red' risk and may identify further control measures to manage the risk. It will also:

- Confirm the team-level impact assessment of a red risk. High impact risks will be added to the strategic risk register and an owner identified.
- Consider that a medium impact risk is indeed strategic in nature and deal with it as a high impact risk.
- Consider that a high or medium impact risk is not strategic in nature and pass it back to the originating team to manage there

This process is overseen by the CEO team and ultimately ARAC, to ensure consistency in the way risks are assessed and categorised.

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2.5 Addressing risks – further information

In identifying risks and dealing with them as above, a thought process is necessary. The following may be useful either at team / project team or management team level in deciding what to do about each risk.

Having identified a risk and assessed impact by severity and likelihood, the next step is to look what control measures are already in place or can be put in place to deal with the identified risks. For many risks, for example health and safety risks, actions may have already been taken to treat or eliminate the risk under all circumstances under which it could arise. Where such control measures are in place, management team should examine them to judge whether they are adequate or whether any residual risk remains, or whether the risk might slip through these existing control measures under some circumstances. In some cases, risks may be deemed to be 'over-controlled' – action in this case may be to ease such controls and allow the risk to be taken.

Risk impact can then be assessed again in the light of the control measures to demonstrate the effectiveness of the measures in place.

This process is known as **treating** risk, and most risks will be treatable to a greater or lesser extent. Other actions that can be taken to deal with risks include:

- *Transfer the risk*:
  This might be done through such things as conventional insurance or by asking a third party to take on the risk in another way. Contracting out services, for example, transfers some, but not all, risks (but can introduce a new set of risks to be managed);

- *Tolerate the risk*:
  The ability to take effective action against some risks may be limited, or the cost of taking action may be disproportionate to the potential benefit gained. In this instance, the only management action required is to 'watch' the risk to ensure that its likelihood or impact does not change. If new management options arise, it may become appropriate to treat this risk in the future;

- *Terminate the risk*:
  This involves quick and decisive action to eliminate a risk altogether, often by simply stopping what you were doing! Terminating risks arising from outdated IT systems by buying new systems is another example, although new systems, in themselves, may introduce new risks.

2.6 Reviewing and Reporting Risks

Risk management is a dynamic process – new risks will be identified, others will be closed etc., and the assessment of likelihood and severity will need to be reviewed.

Management team and ARAC will keep those risks on the strategic register under regular review. All reports to Board will contain a 'risk implications' section, and any new activities to be included in the business plan should be risk assessed.

Information on risk and risk assessment categorisations associated with business plan activities and actions will be integrated into the performance management process, and reported through the reporting arrangements associated with that process.

Performance managing risk assessment

Transport Focus will need to assess whether its approach to risk management is successful each year. The control measures outlined in the strategic risk register will be incorporated and monitored through the business plan.

Identifying new risks

All staff and managers in particular, will need to take responsibility for potential new risks as they arise. Risks should be reported to directors or heads of team and, where deemed sufficiently serious, for consideration and assessment by the management team. In this way, the risk register can be kept up-to-date and newly arising risks can be identified and assessed.

2.7 Project Risks

The volume and complexity of projects at Transport Focus means that project risks must be carefully identified and assessed before approval is given. It is for whoever is approving a project – normally Management Team but also Board from time to time – to satisfy itself that risks have been satisfactorily considered.

The project brief provides space to record the top three project risks (section H).

All projects

The risk at line #1 should always be reputational risk. To what extent does this project pose a threat to our reputation or what opportunity is there, through the outcomes of the project, to enhance it?

Consideration of data privacy and equalities risks are also mandatory. Given the complexity of assessing these risks, project workbook pages have been specially created for completion, and consideration alongside the project brief.

Projects in Category A/B and C

Other top risks as identified in lines #2 and #3 should be as the project manager and sponsor agree.

Projects in Category D

Projects in this category are commercially or additionally funded projects and thus their risk profile is different.

The line at #2 risk must always be an assessment of **financial risk** and how potential impacts may be mitigated

The remaining line #3 should be used to address any other high level risks. These might include contract terms, intellectual property, contingent or residual liability or data sharing. Advice should be sought from the CEO team where necessary.

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Annex 1: Roles and Responsibilities

Transport Focus Board

- Overall responsibility for risk and internal control as set out in the Sponsor's Management Framework

The Audit and Risk Assurance Committee (ARAC)

- Key role is to provide assurance to the Board that a satisfactory level of internal control is being achieved through the effective management of risk.
- The Committee oversees the strategic risk register and endorses or seeks clarification from the Chief Executive in the manner in which risks are addressed or prioritised.
- The Committee challenges MT members annually on the risks identified for their teams

The Management team (MT)

- The Management team role in risk management is to ensure that all risks are properly identified, assessed, managed, monitored and reported.
- The Management team has executive responsibility for risk ownership and the monitoring of the effectiveness of control mechanisms.

All Staff

All staff have a part to play. Even where staff are not involved in addressing, reviewing and reporting risks, they can be involved in identifying and assessing risks.

Risk owners

Each risk that is identified in the risk register will have a corresponding risk owner. Ownership must apply at an appropriate level, with the person(s) who can take effective action, for example, by being able to switch resources to tackle a risk or give agreement not to deliver other work of lower priority. If a risk owner(s) finds that they cannot take such action, then the risk needs to be escalated to the next level. The owner(s) is responsible for the quality of data recorded about the risk in the register. Risk owners will ensure effective controls are in place and develop additional actions as required.

Directors and heads of team

Directors and heads of teams remain accountable to the chief executive and ARAC for the management of risks within their team, even if they have allocated the job to a risk owner within their team. They will report once a year to Audit Committee. Note the **resources director** has specific responsibilities in respect of the prevention and reporting of fraud.

Head of business services

Based in the CEO team, the post holder is charged with providing advice and guidance on the management of risk throughout the organisation. HoBs owns the risk strategy and is also Senior Information Risk Owner (SIRO).

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Annex 2: annual risk management timetable

Q1	**April**	**May**	**June**
	• ARAC considers strategic risks • ARAC risk assurance report to Board	• Board considers ARAC risk assurance report	• Team risks quarterly review for Q1 • quarterly review of risk Q1
Q2	**July**	**August**	**September**
	• ARAC considers strategic risks	• Risks identified from team plans • Risk assessments conducted by teams	• Team risks quarterly review for Q2 • quarterly review of risk Q2
Q3	**October**	**November**	**December**
	• ARAC considers team risks for Transport and CEO teams ARAC considers strategic risks • ARAC mid-year risk assurance report to Board	• Board considers ARAC mid-year risk assurance report	• Team risks quarterly review for Q3 • quarterly review of risk Q3
Q4	**January**	**February**	**March**
	• ARAC considers team risks for resources, Insight and Comms teams • ARAC considers strategic risks • ARAC end year risk assurance report to Board • Annual review of risk strategy	• MT considers risk appetite alongside draft business plan	• Team risks quarterly review for Q4 • quarterly review of risk Q4 • Board considers and approves business plan and risk appetite • Board considers ARAC end-year risk assurance report