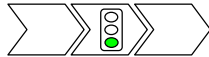


The Risk Programme
Improving Government's Risk Handling
Second Report to the Prime Minister

EXECUTIVE SUMMARY

1. The Risk Programme has reached its halfway point, one year on from publication of the Strategy Unit report in November 2002. This report summarises the analysis of progress and prospects. A supporting paper¹ presents more detailed analysis and examples of where good risk management is making a real difference to delivery of projects and services, and in handling risks to the public.
2. Across government there is now awareness of the importance of good risk management – key drivers are the increasing focus on delivery, the growing use of project and programme management, and the development of corporate governance. Basic processes are usually in place, and there is a range of action to improve performance.
3. Annex A demonstrates that, across government as a whole, there has been measurable improvement in the capability to manage risk. It also shows that there is still a wide range of performance.
4. Departments have increasingly clear plans for further improvement, and a number have set specific targets for the coming year. A number of Departments aim to make significant progress with embedding risk management into their core business processes in the next year. But it is clear that full culture change – with risk management becoming an integral, and natural part of the way most people work – will take considerably longer. Full embedding and culture change may not be achieved without some further stimulus subsequent to the end of the Risk Programme.
5. Risk management is becoming established and understood as a valuable element of business and corporate management. Departments report extensive use in project and operational areas. Boards and senior management are increasingly addressing risk in strategic decision-making, and promulgating its use throughout their Departments. However it is clear, for example from Gateway reviews and Departments' reviews of plans, that there is a need to improve the quality of understanding of the risks faced, and the active management of these risks.
6. There is a clear trend to support PSA delivery by regular, structured analysis and management of risks – through delivery planning, programme management, and at Management Board meetings. Even so, this is a developing area and there remain concerns about the quality of risk management in a number of key delivery areas.

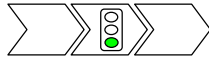
¹ Improving Government's Risk Handling: Second Report to the Prime Minister – Supporting Analysis and Examples of Good Practice.



7. Key challenges for the year ahead include:

- ⚡ **Embedding risk management in business processes** - most importantly in planning and performance management. Departments report the need to develop effective use of risk techniques, and improve the quality of analysis
- ⚡ **Managing risks with partners** – many Departments report plans to develop their understanding of the risks faced by their delivery partners, and their risk management processes, and to ensure an integrated approach to improve achievement of objectives.
- ⚡ **Improving management of risks to the public** – implementing the principles published in September, ensuring effective decision making, and good communications.
- ⚡ **Policy making** – there is a need for further work with policy makers to ensure that policy announcements are underpinned by a good understanding of the risks, and that innovations to improve public services involve well-judged and well-managed risk taking.
- ⚡ **Leadership** – building on recent momentum, to ensure that Ministers and senior officials are actively involved in making key risk judgements (e.g. for PSA delivery), and in driving forward improvement of risk management capabilities.
- ⚡ **Corporate Governance** – ensuring that the corporate governance framework for government supports delivery and encourages effective risk management.

8. The Treasury Risk Support Team and others from the central departments will support Departments in addressing these and other issues, through a programme of events, guidance, and one-to-one meetings. There will be a renewed focus on learning from good practice: the supporting paper to this report contains a wide range of examples; we aim to increase our learning from the private sector (BP, AstraZeneca, Zurich and others); and from the best Local Authorities. We will also aim to further share and expand our understanding of good practice in other countries – focusing on Canada, Australia and New Zealand.



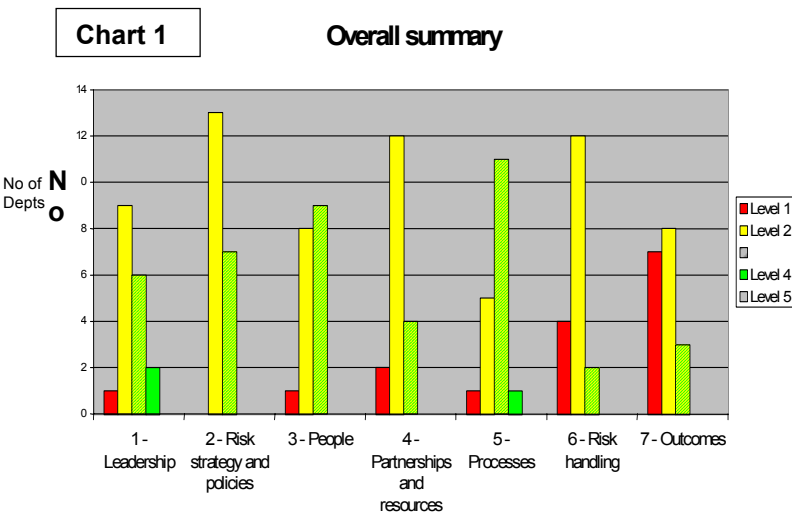
ANNEX A: HOW WELL IS GOVERNMENT RISK MANAGEMENT DEVELOPING?

1. This was a difficult question to answer at the time of the first report, six months ago. So an assessment framework² was developed to help Departments judge, on a common basis, their risk management capabilities and how far these are helping them to achieve their objectives. The framework was used by nearly all main Departments to assess:

- Ø five aspects of their capabilities: leadership; strategy and policies; people (skills etc); partnerships and resources; processes.
- Ø two measures of results or effectiveness: the quality of risk handling; and the impact of this on achieving the Department's outcomes.

2. Evidence was gathered for each criteria and a five point scale (1, low – 5, high) was used to score the level attained³.

3. This summary chart shows the range of levels reached by Departments⁴. It shows that most Departments are either at level 2 or level 3 for individual capabilities, i.e. they are either implementing, or have already implemented the necessary risk management arrangements. However, very few felt they had fully embedded their risk management in the way the Department works (level 4). (There was also significant variability in maturity between different parts of Departments – some have used the assessment framework to identify those parts in most need of improvement.)



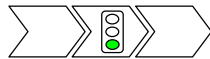
4. There was less ability to produce, at this stage, evidence that risk management had contributed to achieving outcomes (though a number of good examples are available in the supporting analysis paper).

5. Smaller departments were slightly more likely to achieve higher scores than main departments. This reflects experience with Statements on Internal Control (SICs), where 86% of all government bodies responding made a full statement for 2002/03, as against 56% of main Departments. The lower figures for main Departments are likely to be due to their greater size and complexity.

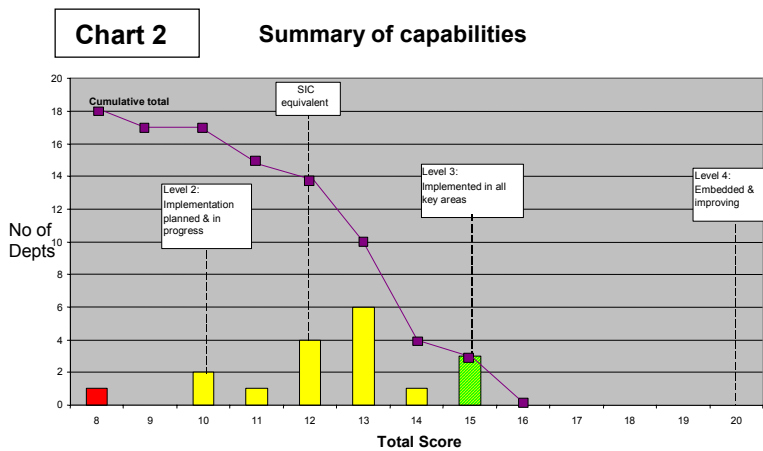
² Available at http://www.hm-treasury.gov.uk/media/7B1D9/risk_assessment_framework_220903.pdf

³ There are more detailed descriptions for the levels, but, in summary, for capabilities these were defined as: 1 – Awareness; 2 – Implementing; 3 – Implemented in key areas; 4 – Embedded; 5 – Excellence. For results, the levels are 1 – No evidence; 2 – Satisfactory; 3 – Good; 4 Very good; 5 – Excellent.

⁴ The charts in this report are based on reports from 'Main' Departments, defined as those with Cabinet Ministers, plus Customs & Excise, Inland Revenue, and including the Scottish Executive and Welsh Assembly. A number of other Departments also used the assessment framework.



6. Chart 2 shows the total scores for capabilities (i.e the sum of five individual scores) for the main Departments. It shows that, by October 2003, nearly all Departments judge that they have reached at least level 2 across the board. But very few consider that they are in aggregate at level 3. 75-80% of Departments consider they are now at or above a score compatible with the SIC requirements for 2003/04⁵. This appears to indicate significant progress during the current year⁶.



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7. A number of Departments are also setting themselves targets for improvement over the current year (often to level 4, though in some cases level 3).

8. The Treasury Risk Support Team have brought this together with what we know about the past to show the long-term picture for risk management. Chart 3 shows the likely progress to date (drawing on studies and surveys by NAO, Treasury, and the Strategy Unit), and extrapolates a possible future path. It shows a broad 'average' position in Departments, and gives an idea of the likely spread.



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9. The main judgements here are: that many Departments will be able to achieve some measure of embedding over the next year, but that full culture change – so that risk management is an integral, and

natural, part of the way most people work - will take considerably longer. Full embedding and culture change may well not be achieved without some further stimulus subsequent to the end of the Risk Programme.

⁵ This is judged to be, very broadly: Leadership, people, partnerships – level 2; strategy & policies, and processes – level 3.

⁶ The figure of 75-80% can roughly be compared to the 56% figure for 2002/03. And the improvement may actually be more marked than this because the requirements for the SIC for 2003/04 have been widened.