

Paper (12) 80 Annex B

Risk Management Strategy

Introduction

1. The LSB needs to meet the competing priorities of time, finance and quality, whilst at the same time ensuring that our programme of work, and delivery of the regulatory objectives, are achieved. In the context of the LSB's work, a risk is defined as something which could impact on the LSB's ability to perform its duties under the Legal Services Act 2007 (**the Act**).

Purpose

2. The purpose of active risk management for the LSB is to ensure that risks are identified correctly, that mitigating actions are appropriately focused and implemented so that the LSB's programme of work to deliver the regulatory objectives is achieved.

Principles

3. The following principles will be applied to the risk management of the LSB:
 - The LSB's risk management strategy ensures that the LSB is not prevented from achieving its objectives, through a need to react to unforeseen pressures and events;
 - The LSB's risk management strategy must help the organisation to undertake its work efficiently and effectively;
 - The risk management strategy must help ensure that LSB is compliant with legislation and public sector standards/good practice;
 - In light of the size of the LSB, a pragmatic approach will be taken to the management of risk;
 - The Board sets the tone and influences the culture of risk management within the LSB;
 - The LSB through the Audit and Risk Committee and the Gateway Group, is aware of where likely risks will come from and is able to appropriately manage them;
 - A consistent approach to risk management is being fully embedded within the LSB at the level of corporate and project management and reflected in the Performance Management Process.

Risk Management

4. This risk management strategy describes how risks will be managed and handled during their lifecycle. It aims to ensure that:
 - actual and potential risks are identified;
 - risks are assessed and prioritised;
 - where possible, risks are avoided; or
 - risks are reduced to an acceptable level and damage to the organisation is minimised.

5. In doing so, the LSB's objectives are more likely to be achieved as risks to delivery are quickly and effectively identified and managed. The process consists of four key parts:

- identification;
- evaluation;
- action on the risks is properly and effectively implemented; and
- review and feedback on the action taken.

The risks will change throughout their lifecycle, as the environment they are in and their importance alters. The assumptions about risks will therefore need to be regularly revisited and reconsidered. This will happen on a monthly basis at Programme Board and Gateway meetings, three times a year at the Audit and Risk Committee and, twice a year, at Board meetings. In the context of project reporting, the Board will be advised of escalated risks on a monthly basis

Classification of Risk

6. Risk will be managed at two levels:

- Corporate Risk – a risk that affects the organisation as a whole and is therefore regularly brought to the Board's attention. Risks with the highest scores will be flagged up on the heat map, so that the Gateway Group, Audit and Risk Committee and Board are able to focus on the key risks;
- Project Risk – a risk that could prevent any individual project achieving its agreed deliverables and is therefore regularly brought to the attention of the Programme Board and Gateway Group. A Project Risk, or combination of Project Risks, may be such that it is escalated to a Corporate Risk.

Identification of Risk

7. Risk identification will be an ongoing process within the LSB and there will be a collective ongoing responsibility for the identification of risk as well as regular assessment at Programme Board and Gateway Group meetings (see Appendix One and Two).

8. The Corporate Director is responsible for ensuring that the risk management strategy is embedded on a day to day basis.

9. The Corporate Risk Register is maintained by the Business Planning Associate, however each risk is owned by a member of the Gateway Group. The scoring and mitigation of the Corporate Risk Register will be reviewed monthly by the Gateway Group, at each meeting of the Audit and Risk Committee and on a six monthly basis by the Board (unless the nature of the risk requires more frequent review).

10. As projects are initiated, Project Managers will assess any risks and set up project risk registers. Through the course of the project, new risks, or risks that have risen in status will be escalated on a monthly basis via the programme highlight report. Guidance for Project Managers on managing Project Risks and Issues is shown in Appendix Four.

11. The Business Planning Associate will monitor the Project Risk Registers. Combined project risks that could hinder the LSB meeting its business plan commitments, or individual risks that may impact at programme level will be escalated to the Corporate Risk Register
12. The Chief Executive will ultimately be accountable to the Board for the LSB management of risk.
13. Where risks are shared with either the Ministry of Justice (MoJ) or the Office for Legal Complaints (OLC), we will work with the respective organisation to mitigate those risks and in doing so will ensure that all parties understand their roles and responsibilities.

Categorisation of risk

14. Risk to the LSB will fall into one or more of the following categories:
 - Strategic – failure to deliver policies that meet the regulatory objectives or the LSB delivers the ‘wrong’ outcomes
 - Financial – lack of finances to carry out its activities or lack of formal control or the LSB exceeds its financial limitations
 - Environmental – changes to government policy in respect to the activities of the LSB or other external events impact on the LSB meeting its objectives
 - Operational – the ability of the internal process of the LSB to function effectively or failure of internal processes causes the LSB to deliver the ‘wrong’ outcomes
 - Reputational – justifiable attacks on the credibility of the LSB which diminishes its overall effectiveness
15. The LSB has developed a common approach to the identification and management of risk.

Evaluation of Risk

16. Risk evaluation is concerned with assessing the likelihood and impact of a risk happening:

- The **likelihood** of the risk - assessed as either being Remote/Possible/Likely/Certain, based on the information about the risk that is available.
- The **impact** of the risk - evaluated as the effect of the risk occurring against the framework of Minor /Low/Moderate/Serious/Severe. The impact of risk is determined by the effect on the LSB in respect to some or all of the following:
 - Cost - financial
 - Quality
 - Reputation
 - Resources
 - Scope to fulfil the regulatory objectives/ obligations under the Act
 - Time

17. The table below is a guide through which the LSB will to assessing the likelihood of the risk occurring. It is based on MoJ best practice:

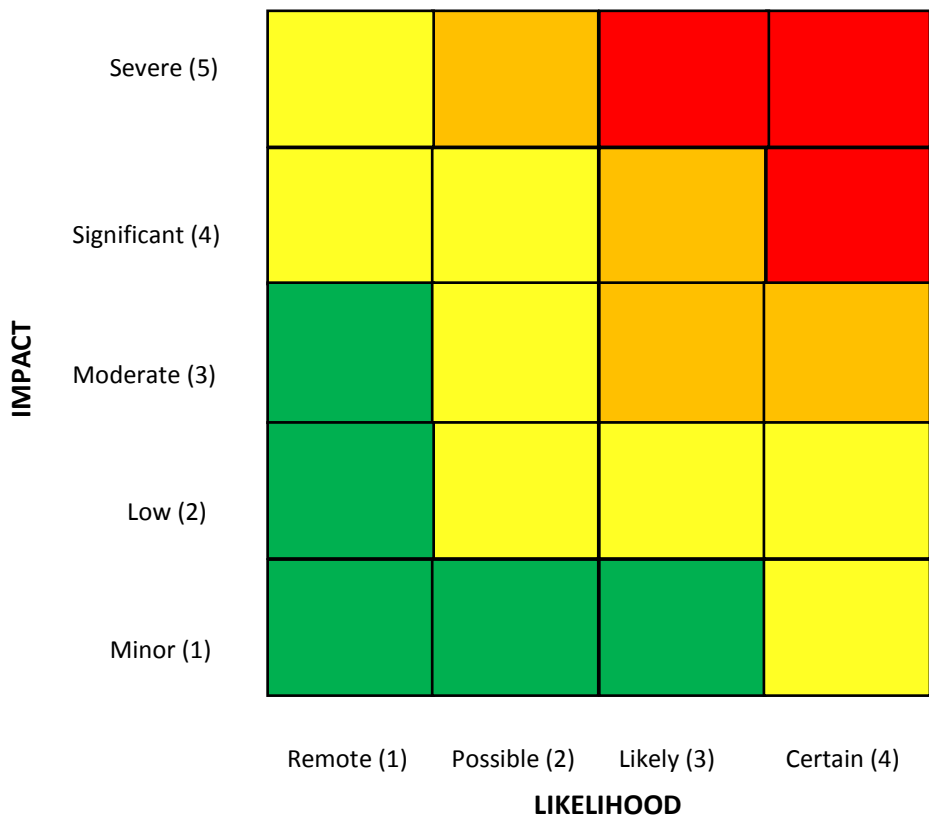
Likelihood	Occurrence
Remote	The risk may occur in exceptional circumstances
Possible	The risk may (probability less than 50%) occur in the project lifetime
Likely	The risk is likely (probability 50%-80%) to occur in the project lifetime
Certain	There is an 80% or greater probability that the risk will occur in the project lifetime

18. Though some of the elements of the impact of a risk can be evaluated in an objective way such as the cost associated with a risk, others are subjective (such as the effect that the risk would have on the LSB's reputation). The table below is a guide to how the LSB will assess the impact of risks, it is based on MoJ best practice:

Severity of Impact	Possible consequence of Impact	
Minor	Reputation:	potential for some loss of trust with stakeholders in the short term
	Cost:	increase in spend from budgetary forecast by less than 5 % of the allocated budget for that work stream or operational area
	Time:	potential of small delay to 1 key project deliverable
	Resources:	potential problems getting the quality of resources needed to carryout activity in the short term
	Quality:	infrastructure working but under pressure
	Scope:	less critical work areas pushed back in the work plan
Low	Reputation:	potential for disillusionment by stakeholders in the short term and short-term negative headlines
	Cost:	increase spend from budgetary forecast by up to 10% of the allocated budget for that work stream or operational area, or funding delayed
	Time:	potential delay to 1 or more key project deliverables
	Resources:	some none critical activities could be under-resourced
	Quality:	a major disruption in the infrastructure of the LSB
	Scope:	less critical work areas pushed back in the work plan until later in the year
Moderate	Reputation:	The LSB loses some operational credibility
	Cost:	Increase in spend from budgetary forecast by up to 15% of the allocated budget for that work stream or operational area
	Time:	Potential delay to implementation of some policy strands
	Resource:	The LSB is under resourced and is unable to perform/ react to new work on the appropriate time scale
	Quality:	A major disruption in the infrastructure of the LSB or the quality of the LSB's regulatory effectiveness in a key policy area is criticised by approved regulators
	Scope:	The LSB is unable to perform adequately all of the activities it is required to undertake by the Act
Serious	Reputation:	The operational credibility of the LSB is questioned
	Cost:	Increase in spend from budgetary forecast by up to 20% of the allocated budget for that work stream or operational area
	Time:	Potential delay to implementation of major policy strands and risk of 'go live' being delayed
	Resource:	The LSB is under resourced and is unable to perform some key activities
	Quality:	The quality of the LSB's regulatory effectiveness is independently criticised

	Scope:	The LSB is struggling to fully deliver its statutory responsibilities
Severe	Reputation:	The operational credibility of the LSB is consistently questioned and the LSB is publicly and justifiably criticised
	Cost:	Increase in spend from budgetary forecast by more than 20% of the allocated budget for that work stream or operational area, or funding does not materialise
	Time:	Potential delay to implementation of major policy strands
	Resource:	The LSB is under resourced and is unable to perform crucial activities
	Quality:	The quality of the LSB's regulatory effectiveness is consistently independently criticised and/or there is infrastructure failure within the LSB
	Scope:	The LSB is unable to fulfil its statutory function in one or more areas

19. All risks will be logged on a Risk Register and their status classified against a judgement of risk likelihood and impact, based on the tables below:



Class	Severity	Description
Red	Critical risk	Critical impact - Immediate action needed
Amber	Severe Risk	Active management needed
Yellow	Material Risk	Active decision needed on whether to manage or monitor the risk Status of the risk is regularly monitored
Green	Manageable Risk	Status of the risk to be periodically review

20. A change in the rating of a risk is known as a **Risk Trend**. The Risk Trend will also be logged and will be assessed at each review point. The Risk Trend will be one of Stable/Rising/Reducing.

21. Any Corporate Risk that has risen in status or has been assigned a critical status will be flagged via the Chief Executives progress report to the Board.

Response to risk

22. The LSB's tolerance for risk will depend on the area of business to which the risk is attached. However, going forward, it can be assumed that:

- The tolerance for Operational (including financial) Risk will be low. The priority here being business as usual.
- The tolerance for Strategic (including environmental and reputational) Risk will be relatively high.

23. The definition of **acceptable** risk for the LSB is:

- the likely consequences are insignificant; or
- occurrence is extremely unlikely;
- a large potential risk consequence is outweighed by the likelihood of a larger benefit and/or by larger risks arising from inaction; or
- the potential costs of minimising the risk outweighs the cost consequences of the risk itself.

24. It is imperative that in discharging our powers, our processes are robust and compliant with our legal obligations. However, in order to minimise the impact that this will have on resources, this will need to be managed on a case by case basis and any risks that are seen to fall outside the agreed tolerance level will be flagged to the Board via the Chief Executives Report.

25. If the Board chooses not to accept a specific risk, it will put in place a strategy to mitigate the risk which will include one or more of the following elements:

- **Preventing** the risk from occurring by doing things differently and thus removing the risk, where it is feasible to do so. Counter-measures are put in place that either stop the threat or problem from occurring or prevent it having any impact on the LSB;
- **Reducing** the impact of the risk by taking action to control it in some way where the actions either reduces the likelihood of the risk developing or limits the impact on the project to acceptable levels;
- **Transferring** the risk - this is a specialist form of risk reduction where the management of the risk is passed to a third party via, for instance, an insurance policy or penalty clause, such that the impact of the risk is no longer an issue for the LSB. Not all risks can be transferred;
- **Contingency planning** should the risk occur there are actions planned and organised to come into force as and when the risk occurs.

26. The Board will review its approach to risk on an annual basis and ensure that the action(s) that are put in place to mitigate any risk are proportionate to that risk.

'Crystallised' Risk

27. If a risk comes to pass, we say that that risk will have 'crystallised'. Such risks (often described as 'issues') will continue to be managed and reported on via the Risk Register by the Gateway Group with frequency determined on a case by case basis and reported on via the CEO's progress report to the Board on a monthly basis.

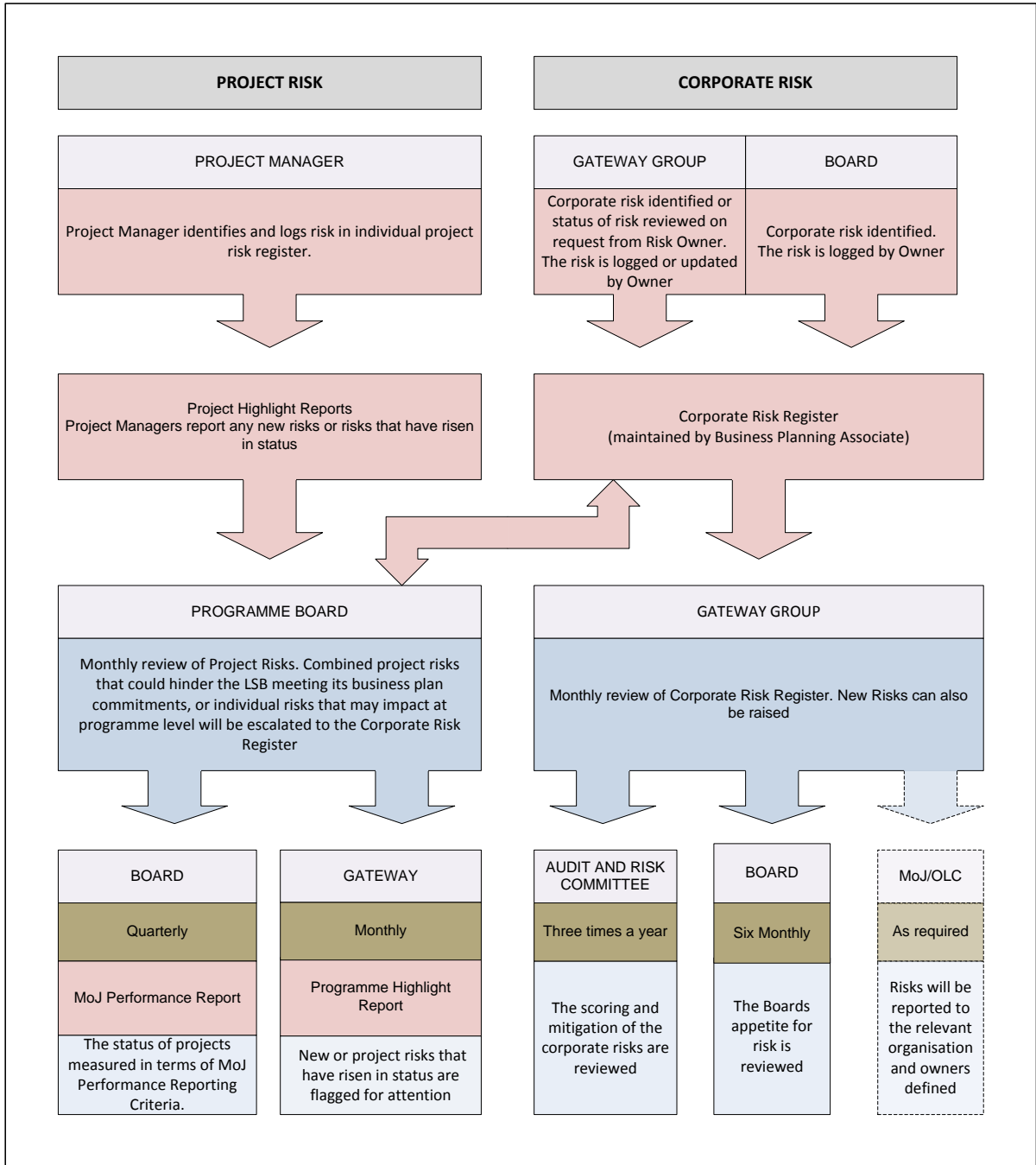
28. A crystallised risk will always have a likelihood rating of four (certain) and their status as a crystallised risk will be logged in the 'Action Planned and Update' column of the Register.

APPENDIX ONE: LSB Risk Management Process – Roles and Responsibilities

1. Responsibility for raising new corporate risks will lie with members of the Gateway Group. Risks can be identified at any time however generally management of Corporate Risk will follow the following process:
 - i. New risks, or a request to change the status of an existing risk, can be raised at Gateway Group meetings. The likelihood and impact of the risk will also be evaluated at this time.
 - ii. Each new risk will be assigned a owner who will be the appropriate member of the Gateway Group. The Risk owner will be responsible for logging it on the Corporate Risk Register, proposing suitable action to mitigate the risk and a timeframe for doing so, if this is appropriate.
 - iii. The Corporate Risk Register will be reviewed, in full, once a month at a scheduled Gateway Group meeting. The Business Planning Associate will ensure that it is entered onto the agenda at the appropriate time.
 - iv. A Corporate Risk that have risen in status or have been assigned a high status will be flagged to the Board on a monthly basis via the Chief Executives report.
 - v. The Board will review the entire Corporate Risk Register every six months.
 - vi. The Audit and Risk Committee will review the Corporate Risk Register three times a year to ensure that the risk management policy is effective and consistent with the boards attitude to risk. Risks that have risen in likelihood will be flagged for particular attention.
 - vii. The Corporate Director has overall responsibility for the management of Corporate Risk, reporting through the Chief Executive.
2. Responsibility for raising new project risks will lie with Project Managers. Risks can be identified at any time however generally management of project risk will follow the following process:
 - i. New risks, their likelihood and impact and proposed mitigation will be identified by Project Managers at the project Initiation stage. Risks will be included, and agreed, in Project Initiation Documents.
 - ii. Project Managers should use these generic risks when logging risks and must focus their action on mitigating the reasons why this may occur (the root cause).
 - iii. Each new risk will be assigned an Owner who will usually be the Project Manager. The Risk Owner will then log the risk in the individual Project Risk Register.

- iv. Additional risks can also be raised at Programme Board Meetings and the appropriate owner identified. The owner of the relevant Risk Register will be responsible for logging the new risk.
- v. Any Project Risk that has risen in status or has been assigned a critical status will be flagged to the Gateway Group and the Board via the monthly highlight report and, if appropriate it will also be added to the Corporate Risk Register

APPENDIX TWO: The LSB Risk Management Process



APPENDIX THREE: The Risk Reporting Schedule

	Management Group	Review/Reporting schedule	Procedures
Corporate Risk	Gateway Group	Monthly	The scoring and mitigation of corporate risks will be reviewed. Any new risks will be added to the register. Any new risks or any that have risen in status will be escalated to the Board via the CEO report.
	Audit and Risk Committee	Three times a year	The scoring and mitigation of the corporate risks will be reviewed to ensure that they remain consistent with the Board's policies towards risk. The Risk Management Strategy will be reviewed annually.
	Board	Six monthly	The Board's risk appetite will be reviewed and the corporate risk register amended as required
Project Risk	Programme Board	Monthly	New project risks or risks that have risen in status will be reported via the project highlight reports and will be escalated to the Gateway Group and reported to the Board via the CEO report. The scoring, mitigation and status of the programme risks will be reviewed. New risks will be added and risks closed down if appropriate
	Board	Quarterly	The status of projects measured in terms of the MoJ Performance Reporting Criteria will be reported to the Board on a quarterly basis.

APPENDIX FOUR: Guidance for Project Risk and Issues Management

Introduction

1. In terms of managing projects, Project Managers need to be delivering the right thing at the right time and being alert to the problems – the risks and issues - that may impact on that happening.
2. In the course of managing a project, various problems, queries or changes will arise. These will be captured in a consistent and structured way in a Risk and Issues Log so that they can be assessed and managed properly.
3. The following principles will apply to Project Risk and Issue Management at the LSB:
 - the LSB's Project Risk and Issue Management Strategy ensures that the LSB is not prevented from meeting its project objectives, by failing to manage changes, concerns or problems that may arise during the lifetime of the project;
 - Risk and issue management is used as a tool to help achieve project deliverables despite problems that arise along the way;
 - project risks and issues can be raised at anytime during a project, by anyone with an interest in the project or its outcome;
 - a project issue may arise from an anticipated but unavoidable risk occurring or on advice of a new risk, however an issue can also be raised in isolation of a risk;
 - if the action taken to resolve a project issue is unsuccessful then it may turn into a corporate risk that must be managed accordingly; and
 - a consistent approach to Project Risk and Issue Management is fully embedded within the LSB.

Project Risk Management

5. The purpose of active Project Risk Management for the LSB is to ensure that risks are correctly identified, that mitigating actions are appropriately focused and implemented so that the required output of the project is achieved.
6. Project Risk Management at LSB is concerned with 'root cause and consequence'. Project risks emerge as the consequence of a problem coming to light, that may stop the Project Manager from achieving the agreed deliverables. Project Managers must identify and actively manage the root cause of the risk to reduce the impact of the consequence occurring. Therefore:
 - **Risk:** the consequence of an action or event that may stop a project manager from achieving the agreed deliverables
 - **The root cause:** the event or action that caused the risk to occur
 - **Mitigation:** what the Project Manager is doing to manage this root cause.

Risk Classification

7. Five generic consequences of problems that could arise during the course of a project have been identified. These five generic risks are:

- The project will not be delivered on time
- External events impact on project delivery
- Project delivers the wrong thing
- Project damages LSB reputation
- Project exceeds financial limitations.

8. In most cases project risks will fall into one of these areas however there may be occasions when it will not be appropriate to use one of the generic risks, in these cases a standalone risk can be developed. There should, however, be a clear rationale why this is needed.

9. Examples of risks and root causes:

Risk	Examples of Root Cause
Project will not be delivered on time	<ul style="list-style-type: none"> • Not enough resource to achieve the deliverable in the time allocated • Lack of project strategy or plan / clarity of approach to delivery • We don't have sufficient technical resource • Key personnel leave • Impact on external events on projects
Projects objectives undermined by external events	<ul style="list-style-type: none"> • Lack of compliance by AR's • At odds with MoJ / Changes in public policy • Board/other stakeholders acceptance criteria changes • Legal Challenge
Project delivers the wrong thing	<ul style="list-style-type: none"> • Does not meet acceptance criteria • Lack of project strategy or plan / clarity of approach to delivery • Does not meet the objectives of the business plan • No credible proposals • Scope of project is wrong – too wide/narrow • Poor decision making • Rationale for the project is wrong – no evidence etc • Regulatory capture

Project damages LSB reputation	<ul style="list-style-type: none"> • Does not meet acceptance criteria • Lack of project strategy/clarity of approach to project • Lack of compliance by AR's • At odds with MoJ/changes in public policy • Delivered without credible proposals • Threatened with Legal challenge • Scope of project is wrong • Impact of project on external stakeholders • Run out of time • Poor quality output • Over spend
Project exceed financial limitations	<ul style="list-style-type: none"> • Delivered outside set budget/overspend • No skills in-house • Poor decision making

Risk Identification and Management Process

10. The Identification of Project Risks will focus on actual events or problems that can be actively managed rather than general uncertainties.
11. Project Risks will be identified and managed using the process outlined in Appendix One and Two.
12. Project Risks will be evaluated in line with the process outlined in the Risk Management Strategy.

Issue Management

4. An issue for the LSB is any concern, query, change request or suggestion that is raised during the lifetime of the project and requires discrete intervention and action to resolve. The strategy is designed to ensure that the LSB has a consistent approach to managing issues during a project lifecycle. It will ensure that:
 - The LSB, through the Programme Board and the Gateway Group, is aware of issues when they arise and is able to appropriately manage them;
 - actual and potential issues are identified;
 - issues are assessed and prioritised;
 - suitable action is taken to address the issue; and
 - issues have an owner who's responsibility it is to ensure appropriate actions are carried out.

Classification of Issues

5. Issues will be categorised either as a:

- **Project Modification** – a request to make a change to the project specification (outlined in the Project Initiation Document) or acceptance criteria of the project. *E.g. A project deliverable is no longer sufficient to address overall objectives, therefore the project will not meet the defined acceptance criteria. A change to the project specification is therefore requested to ensure that the project does not fail in meeting its objectives;*
- **Project Omission** – identification of something which should have been included in a project but was not, or should currently be included but is not and will result in the agreed specification or acceptance criteria not being met. *E.g. Development of a new internal LSB policy should have taken an overarching MoJ policy into consideration but didn't, it will therefore not meet an objective for an integrated approach to be taken across both organisations;*
- **General Project Issue** – any other issue that arises that will impact on the project specification or acceptance Criteria and requires an answer or solution to rectify it. *E.g. Milestones set in a Project Initiation Document (PID) will not be met due to the need to prioritise workload. Therefore the tangible outputs for particular milestones will be pared back.*

Issue Management Process

6. Project Managers will record and assess any issues that arise during the lifetime of a project. This will be done on an on-going basis, and will be reviewed along with Project Risks at Monthly Programme Board meetings.

- The following information will also be recorded on the Project Issue Log
 - Date the issue was raised;
 - issue owner;
 - date the issue was last updated and by whom;
 - the status of the issue;
 - who the issue has been escalated to;
 - a description of the issue;
 - the potential impact of the issue;
 - the issue priority;
 - the agreed actions;
 - target action date, who will perform the action and the actual target date;
 - issue type.
- Prioritising the issue –The Gateway Group and Board will be informed of any issues via the Programme Highlight Report.
- Assigning an owner - all issues will be assigned an owner who will be responsible for ensuring that any required action is carried out, this will usually be the Project Manager

- Reviewing the Issues – the issue will be reviewed at Programme Board Meetings on a regular basis to monitor progress. If any issue increases in priority it will be escalated to Gateway Group.

Prioritising Issues

7. The table below is a guide through which the LSB will prioritise issues.

Priority	Definition
High	Definite impact on project schedule, budget, scope or resource
Medium	Possible impact on project schedule, budget, scope or resource
Low	No material Impact

Issue Status

8. The table below is a guide to assigning a status to an issue:

Status	Definition
Input and Unassigned	Issue have been entered into the Issue log but not yet assigned to an owner
Open and Assigned	Issue has been assigned and owner and is currently open
Deferred	Issue is currently deferred for resolution until a late phase or other defined point in time
Closed	Issue has been resolved or closed without action
Deleted	Issue has been deleted (entered in error)

Approved by the Board on 28 November 2012