

Executive Summary

Building resilience: developing a 'whole-risk' approach to managing risk and uncertainty



The full Briefing Paper is available online at www.NewWorldofRisk.com

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Risk, it could be argued, has become the watchword of 21st century enterprise. The successful management of risk is now a mission-critical issue for both public sector and commercial organisations. Yet it is an area undergoing rapid and radical change; changes for which the vast majority of local authorities are inadequately prepared.

The last decade has seen the emergence of a broader range of risks than ever before. These new risks encompass wider and more complicated supply chains, organisational and workforce management, global terrorism, economic and social risks, reputational damage and the ongoing challenges of climate change.

The drive for efficiency, set only to increase in the years ahead, places an increased reliance on outsourcing services and partnership working. This generates opportunities for both innovation and cost savings, but also leaves an organisation's supply chain vulnerable to multiple points of failure.

At the same time, extreme events that cannot be predicted, such as sudden financial crises or one-off, chance weather events, are now occurring more often, placing an increasing importance on preparation and response.

Local authorities must successfully manage these risks, not only to avoid a negative cost impact and a failure to achieve delivery targets, but also to ensure that the opportunities associated with risk – in terms of best practice and innovation – are successfully realised and exploited.

To manage these risks, local authorities need to learn from the experiences of the commercial sector and take a more proactive and rounded approach to risk; an approach which accounts for risk – and its associated costs – in all possible dimensions and at the highest strategic level of the organisation. In short, it means building not just superficial risk awareness and readiness, but genuine '*resilience*' – which Zurich Municipal defines as: '*the ability to survive and thrive in the face of unexpected events and a changing risk landscape.*'

Rising areas of risk

Organisational Change

Reputational Damage

Data Protection

Supply Chain

Community Outcome Delivery

Economic Cycles

Organisational Performance

Climate Change

Financial Challenges

Workforce Management

Key Asset Management

Political Change

The risks within the 'more for less' agenda, outsourcing and climate change call for a focus on 'resilience.'



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Keeping pace with the changing risk landscape:

Local authorities face rapid and constant change in their risk landscape, driven by the imposition of new responsibilities, developing technology, the increasing prevalence of extreme events and the pressures of funding cuts. With risk management still often managed outside of the Executive Board and viewed as a box-ticking exercise rather than for strategic planning, local authorities are leaving themselves potentially exposed to a wide range of reputational and financial risks.

Learning the lessons of the commercial sector:

Private sector organisations are developing best practice in managing risk that could – and should – be appropriated by local authorities. This includes borrowing from emerging Enterprise Risk Management and Business Continuity Management techniques, instilling Board level ownership and ensuring risk management as a whole is aligned to the organisation's strategic objectives.

Realising the benefits of resilience within the public sector:

The recent experience of the commercial sector has demonstrated the dangers of complacency within risk management. It has shown that organisations which adopt a 'business resilience' risk framework are better positioned to anticipate unplanned risk, recover from disruptions, adapt to changing conditions and leverage emerging opportunities. For local authorities in particular, the pressures of the 'more for less' agenda, the implications of new outsourcing models and the intensity of media and political scrutiny on service delivery, call for a more resilient approach.

Identifying a 'whole risk' approach:

Local authorities require a 'whole risk' approach that balances risk prevention with the recognition that many emerging risks are non-treatable and require proper preparation with a strong response plan. A 'whole risk' approach will build a local authority's resilience by aligning the risk programme to reflect the organisation's strategic priorities, operations and outcomes and will bring the various risk disciplines together into a single, integrated risk management framework.

Assessing the total cost of risk:

Focusing on resilience maximises cost savings. The total cost of risk is much more than the annual insurance premium; it must also incorporate the intangible costs of risk, such as provisions for reputational damage costs and the cost to the community of service interruption. Without full appreciation of the total cost of risk, local authorities risk saving on procurement today, only to pay out more – financially and non-financially – over the whole life of the contract and beyond.

Adopting a resilient 'whole risk' approach:

Now, in 2010, the public sector, in particular local authorities, must learn from the commercial sector by ensuring that they adopt a strategically-driven, integrated, 'whole risk' approach.

It can – and must – ensure that resilience becomes the new watchword for the decade ahead.

The consequences of not building a resilience approach to managing risk are significant and wide-ranging. It could expose local authorities to some or all of the following:

- *Failure of key strategic initiatives*
- *Failure of critical authority operations and services*
- *Higher insurance premiums*
- *Unsuccessful delivery of target community outcomes*
- *Failure of a key partner or supplier*
- *Loss of reputation and confidence in the authority*
- *New exposures, with potentially significant financial liabilities*
- *Health and safety liabilities*

Written by Zurich Municipal in association with:



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