

Wise Risk Taking Can Save You Money

by Samuel Oppelaar, Jr.

Local government operations are replete with complex challenges that vary from the most immediate and critical to the longer-term impacts. These challenges span the spectrum of disciplines from disaster planning and response, zoning, growth planning, to delivery of essential services. Each area of local operations has organic risks, and these risks, if they come true, turn into problems that must be dealt with immediately in some cases to prevent loss of life or property or interruption of services.

This article describes how implementing a comprehensive risk management program and strategy at the local level can reduce the number of crisis actions required of elected officials and local government managers and their staffs. More important, this article also describes how these actions can convert risks into successful initiatives to make a community safer while improving the quality of life for residents.

We all know that there is a certain amount of risk associated with taking specific actions, passing ordinances, and executing established policy. These risks can be high, medium, or low.

High risks. High risks are deemed unacceptable to management, since a major disruption is likely and a different approach may be required to mitigate the risk. Priority management attention is required. *Example:* The city's wastewater treatment facility may be shut down by state officials if critical component failures are not properly planned for and fixactions taken within 24 hours and documented.

Medium risks. Medium risks, should they occur, are likely to cause some level of disruption, and new or modified approaches to mitigation may be needed. Additional focused management attention may be required. *Example:* State Department of Community Affairs approval of a planned unit development (PUD) may be withheld if roadway and school concurrency issues are not resolved per the established deadlines.

Low risks. Low risks have minimum impact, but they still require management oversight to keep the risk low. *Example:* Delays in receipt of state revenue sharing may negatively impact short-term revenue projections and may require a community to reallocate funding to sustain daily operations.

The concept of a risk is simple: it is identifying a potentially detrimental condition or situation in advance, and if steps are not taken to reduce or mitigate the risk, the consequences could range from minor to severe. If conditions or potential outcomes actually occur, the risk becomes a problem that must be addressed. The resulting problem may be time critical, and solving it may involve the application of scarce resources or reallocation of resources from other programs.

Stated another way in the Department of Defense 2006 publication, "Risk Management Guide for DoD Acquisition,"¹ risk is a measure of uncertainties in achieving program performance goals and objectives within defined cost, schedule, and performance constraints.

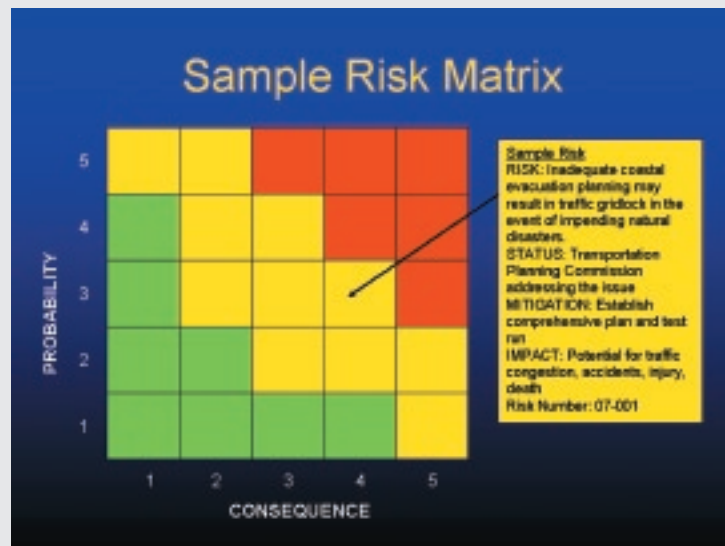
There are three main components of a risk. First is the future root cause (yet to happen), which, if eliminated or corrected, would prevent a potential consequence from occurring. The second factor is probability (or likelihood) assessed at the present time of that future root cause occurring.

And, third, also defined in the Department of Defense publication, is the consequence (or effect) of that future occurrence. Plotting the risk consequence on an X axis against the risk probability (of the occurrence) on a Y axis results in a determination of the risk rating using a standard risk matrix. An example of the risk matrix along with a sample risk is illustrated in Figure 1.

SAMPLE RISK MATRIX

In simple terms, risk management is a process by which risks are identified by leadership and process owners (local government manager, department heads, and division supervisors) and submitted to management for assessment. Practically anyone in an orga-

Figure 1. Sample Risk Matrix.



Source: Department of Defense 2006 publication, "Risk Management Guide for DoD Acquisition."

nization can identify a risk, but the assessment of the risk is the responsibility of leadership in concert with the management team and perhaps other subject matter experts.

The second step in the process is assessment. After something is identified as a risk, the potential for it occurring and the consequence are determined, resulting in an initial risk rating. The example given above shows a risk that has a moderate chance of occurring and a relatively high level of impact.

Next, the risk must be addressed in context of action needed. The leadership must now do something with the risk. In some cases of low or medium risk, the decision could be to accept the risk, but more likely the decision will be to take action to mitigate the risk to reduce its likelihood or its impact, should it occur. This step captures the concept of mitigation planning.

After the risk is identified and articulated, the organization applies the mitigation steps in the plan against the risk. And finally, the risk is monitored periodically or continually to ensure the designed mitigation steps are having the desired impact on the risk.

Risk is the possibility that an adverse event may occur, and risk is present in virtually every activity and

function local governments perform.² Therefore, if risks are present in local government activities, then it becomes clear that these risks must be identified, articulated, assessed, and mitigated to reduce the community's exposure to adverse events and their impact on both the government and the citizens.

HOW TO GET STARTED

Adopt a risk policy statement. If your community doesn't have one, this is the first step in establishing a risk management climate for your organization. The policy statement should articulate risk as a critical component of managing the municipality, an item of importance throughout the planning process, and an issue with potential impact on the community if risks are not addressed.

The policy statement establishes a mind-set and universal guidepost for all employees, reminding them to be aware of risks (safety, financial, procedural, performance, and liability risks) and encouraging all participants to identify and capture potential risks to the government and community.

Establish a risk management program. After establishing a policy statement for risk, establishing a

Sample Risk Policy Statement

The government of the city of Anytown, USA, establishes the following policy concerning risk management: "Risk" shall be a primary consideration in the planning, execution, and operation of all local government services and activities. All local government employees shall take proactive steps to identify potential risks through their respective divisions and make recommendations for mitigating all identified risks. The city is committed to providing a safe, effective, and fiscally efficient service base for the community and shall reduce the potential for mishaps, loss, and liability through the application of sound risk management.

—Statement developed by Samuel Oppelaar, Jr., city manager, Minneola, Florida.

formal mechanism for managing risk is the most important step. Each local government can establish and tailor its risk management program to meet particular community needs, but these programs need to be well thought through and provide controls, procedures, and responsibilities for managing risk.

The risk program should apply to all employees and leadership; clearly define how risks are identified, submitted, reviewed, assessed, and processed; and provide guidelines on mitigation planning and execution. Not having a risk program can be a risk in and of itself, considering that

governments pay out multimillion-dollar settlements resulting from government liabilities for law enforcement errors, personnel misconduct, and infrastructure failures that cause injury or death to citizens.

The vehicle for implementing a risk management program is the risk management plan (RMP). The RMP is prepared by the risk manager and approved by elected officials through the city manager. An RMP should describe in detail how risks are identified, processed, evaluated, assessed, and acted upon. The plan also establishes risk responsibilities for all employees, divisions, and department leaders.

Appoint a risk manager. Effective risk programs operate under the watchful eye of someone who is designated as the risk manager. Smaller communities may choose to assign the risk manager function as an additional duty responsibility to an existing staff member, such as the assistant city manager. Larger communities should consider appointing a full-time risk manager to lead the risk management program.

The important point here is that someone within the local government must have up-to-date insight on the overall risk climate and be capable of addressing risks generated by each department and with government leaders. The risk manager's primary responsibility is the timely and accurate transmission of potential risks to the manager and elected government representatives.

The risk manager makes the initial risk assessments, investigates the circumstances and causes of the risk, evaluates and recommends mitigation steps, tracks mitigation efforts, and reports progress and actions to elected officials. A risk manager should be part of staff meetings. The individual's insights and analysis of risks may represent a critical component of de-



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cision making throughout a government structure.

A RISK IS IDENTIFIED . . . WHAT NEXT?

After an effective risk climate is established and employees gain confidence in the risk program, be ready for risks to come pouring into the risk office! When people realize that identifying a risk to their program is an asset to the program and not a career liability, they will be less reluctant to surface risks. The process of assessing a risk will result in one of several characterizations:

Acceptance. In this case, the decision is made by leadership to proceed with a planned or ongoing activity without taking any action against the risk. An example of risk acceptance would be to construct a playground for the community even though there is a risk of injury to the children using the playground. The locality assumes liability for any injury that might occur.

Transfer. Using the same example above, the community could transfer its liability risk by purchasing insurance for any injury that might occur as a result of using the playground.

Avoidance. After a risk is identified, the risk can be avoided by removing one of the three risk components. The most common action is to remove the root cause of the risk. In the playground example, avoiding that risk would call for the closing of the playground and removing the equipment. The risk is avoided based on a comparison of the potential risk versus the benefit provided by the playground. Without the playground, there is no longer a risk of injury, but the downside is that the kids don't have a playground to use.

Mitigation. Risk mitigation involves assessing the risk in terms of likelihood of occurrence and potential impact and identifying actions that can reduce either component. Mitigation is at the core of a risk management program and forms the basis for program-level decisions.

Again, in the playground example, possible mitigation steps may include using a rubber composite flooring structure under the equipment, posting warning signs on the equipment, requiring adult supervision for younger children, selecting equipment that has a safety certification from the manufacturer, and limiting use to daylight hours.

Risk mitigation implies a level of risk acceptance also, because taking all the right steps to reduce a risk's likelihood or impact may not completely eliminate all risk but may reduce it to an acceptable level.

CONVERTING RISKS TO SUCCESS

In simple terms, converting risks into successes is the process of improving the delivery of services with increased safety, effectiveness, and efficiency. The operation of any complex organization that involves providing a service is replete with risks—risks to people, risks to programs, and risks to property. The payoff occurs when a risk is identified and actions are taken to avoid, mitigate, or transfer the risk.

These actions make programs safer, reduce waste, improve services, and reduce liability, while providing proactive initiatives for elected and appointed leadership to apply to the community. What this means is that identifying a risk is not a bad thing; it is actually a good thing for everybody because it makes everyone aware of a potentially detrimental situation and generates a set of actions to make the situation better.

When your community identifies and properly addresses a risk, the community will be thankful for the improvement in services, condition of property, and an increase in peace of mind throughout the community.

SUMMARY

There will always be some risks to operating a local government, and these risks have the potential to make a detrimental impact on it. The key to managing these risks is to acknowledge that they exist. The concept of having a risk management plan, backed by a proactive risk policy

Minneola, Florida, is a prime case in point concerning the implementation of risk management. Until this year's budgetary cycle, risk had not been introduced to the city council, and the budget for the past fiscal year actually contained a significant level of execution risk that did in fact come true, resulting in a serious financial shortfall that required city council action and reserve fund access. Minneola's FY 2009 budget includes, for the first time, a risk analysis for budget execution.

statement, forms the basis for implementing a viable and effective risk management program.

The entire climate of the government organization must reflect the idea that identifying a potential risk is a positive and valuable step toward improving its risk posture. People expect their local governments to provide a level of safety and effectiveness along with the delivery of services, and having an effective risk program helps to ensure that risks to life, property, and services are adequately addressed and steps are taken to reduce or eliminate them.

The analysis of risks and of the steps your local government structure takes against risks helps to convert risks to successes! Don't stop work on a playground because there are risks, but make sure your team has assessed the risk potential and taken steps to make the playground safe and enjoyable. **PM**

¹"Risk Management Guide for DoD Acquisition," 6th ed. (Washington, D.C.: Defense Acquisition University, 2006), www.dau.mil/pubs/gdbks/docs/RMG%206Ed%20Aug06.pdf.

²"Risk Management Best Practice Review" (Albany: State of New York, Office of the Comptroller, March 2001). Available on the Web at <http://www.osc.state.ny.us/localgov/audits/swr/2001pv1.htm>.

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