



# Risk Management Master Procedure



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2.0	Reviewed with minor amendments	13/11/2008	MH	SC	SB
1.0	Approved	11/06/2007			MC
0.3	Updated with Comments from MC	23/04/2007	OO'R	NC	
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## 1. Purpose

To provide a systematic method for the management of risk and use of associated tools in the context of the Edinburgh Tram Project (ETP).

## 2. Scope

All specified risks relating to the ETP. For ease of use, the risk management process has been broken down into three stages, each stage having been detailed in a sub-procedure.

## 3. Principles

- A core competency of project management is the management of risk. ETP risk management strategy requires that risks are directly managed by the relevant Project or Functional Manager, the individual best able to manage the risk.

## 4. Definitions

**Change:** A modification to the objectives, at whichever level, and scope of the project. Change requires an assessment of technical needs, cost and, schedule and impact on future operations, with modifications measured against the project baseline.

**Risk:** A specific event or combination of events that, if they occur, will affect the ability to achieve project objectives and consequently the outcome of the project, in a negative manner.

Risk is described in terms of cause, event and effect.

**Note:** Change and Risk are different. Change results from a decision to modify the objectives or scope. Risk results from events that affect ability to achieve those objectives. Where change is significant, it can alter the risk profile of the project.

**Opportunity:** An event or combination of events that could have a positive impact on the project.

**ALARP:** As Low As is Reasonably Practicable. This point is defined as the level at which risk treatment becomes more costly than the expected exposure presented by the risk. It is tie policy that all risks are treated to a point that their impacts are ALARP.

**ARM:** Active Risk Manager – a database system used for recording risk information such as impacts and treatment plans.

**Baseline:** The position serving as the basis for measurement of planned costs, schedule, scope, technical requirements and future operations of the system for the project. The baseline reflects the project objectives and defined scope at the time of

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establishing its position and serves as a standard for measuring the status of resources and progress of a project. Change and risk are assessed through comparison with the baseline position.

**Black Flag:** Risks are classified as "black flag" risks when they could stop the project and/or stop tie as a corporate organisation either through a process related issue e.g. approval of business case or where the impacts are so high they would cause the organisation to fail e.g. through bankruptcy. Also known as showstopper risks.

**Cause:** The cause or causes of the risk event.

**Effect:** The effect or effects of the risk event. Each effect has an impact.

**Exposure Period:** The time period during which the risk will impact. The risk closes at the end of the exposure period whether or not it has been treated or has materialised.

**Impact:** Part of risk assessment, this is the impact that the risk would have if the risk event occurred. There are three distributions of impact:-

Single Point – this distribution should be used if the exact impact of the risk event is known.

Uniform – also known as two point. This is where the impact can be identified but only within a range between two points, the minimum and maximum impact.

Triangular – also known as three point. The minimum, most likely and maximum impact of the risk can be identified.

**Probability:** Part of risk assessment, this is the probability of the risk event occurring NOT the probability of the impact occurring.

**Project/Functional Manager:** Individual who manages the activity that a risk has an impact on. This may or may not be the same person that is the Risk Owner.

**Risk Event:** The event that will affect the ability to achieve project objectives.

**Risk Originator:** Individual who raises a new risk or opportunity. This can be anybody whether or not they have direct access to ARM.

**Risk Owner:** Individual who manages a risk or opportunity. Ownership of risk is assigned to the individual best able to manage it.

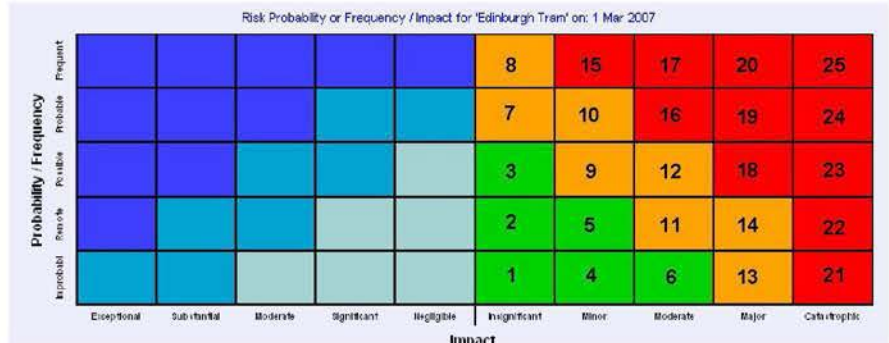
**Risk Significance:** Depending upon the probability and impact of the risk, a risk significance will be assigned and also a high (red), medium (amber) or low (green) classification. The Probability Impact Diagram below shows how this applies to tie (risk significance in bold numbers).

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**Specified Risk:** Foreseen events, identified in a risk register, that affect the outcome of the project. Specified risk is defined from a point of view and is assessed in terms of variation to the baseline. Specified risk is treated and its probability and/or impact reduced through various strategies.

**Treatment Strategy:** This is the strategy that is implemented to treat the risk. tie has defined 7 outline approaches to treating risk and the chosen key strategy should be supported by a detailed action plan for each risk. The strategies are as follows:-

**Avoid** – This strategy involves fundamentally changing the way that things are done or changing objectives (root cause avoidance) so that a risk becomes invalid.

**Reduce** – Concentration on reducing the probability of the risk occurring and/or the impact of the risk if it does occur. Key reduction approaches include prevention, detection and mitigation.

**Share** – Risk sharing of an individual risk is not easy to achieve. Sharing strategies normally include a contractual element defining how risk exposure is to be allocated between parties in the event that it materialises.

**Transfer** – Either management responsibility or liability for exposure is transferred to another party e.g. through contract or through insurance. Risks should be transferred to the parties best able to control them or who can carry the risks at lowest cost, or most incentivised.

**Accept** – Risk exposure is low enough be absorbed or the impact has been managed to a level that is ALARP.

**Increase Exposure** – A party may choose to increase exposure if there is some other benefit to be gained e.g. price reduction.

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Enhance Opportunity – Where an opportunity has been identified, effort must be made to ensure that the best opportunities are capitalised on.

Unspecified Risk: Unforeseen events that occur and affect the programme.

## 5. Responsibilities

See sub-procedures.

## 6. Process

See sub-procedures.

## 7. Records

Risk records are held in the ARM database system and reports are generated from the data. There are no paper based forms associated with this procedure.

## 8. References

	<u>Document Number</u>	<u>Title</u>
1.	COM-Project Controls-86	<a href="#">Risk Identification – Risk Management Sub Procedure Stage 1</a>
2.	COM-Project Controls-68	<a href="#">Risk Assessment – Risk Management Sub Procedure Stage 2</a>
3.	CO-Project Controls-66	<a href="#">Risk Treatment – Risk Management Sub Procedure Stage 3</a>

## 9. Attachments/Forms

None.

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