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SCOPING FUTURE RISKS AND VULNERABILITIES: WHAT ROLE FOR THE CENTRE?

Meeting of Senior Officials from Centres of Government: Leadership in Managing Risk

Vienna, 28-29 September 2006

This document provides background information for Session 1 on Thursday 28 September from 9:30 a.m. to 10:30 a.m.

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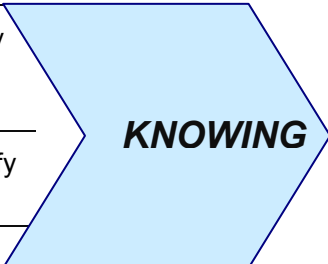
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Session 1
Scoping future risks and vulnerabilities: what role for the Centre?

Session 1 keyword

Aim	To focus on the role of the Centre in ensuring government's capacity to detect and respond to emerging risks and identify systemic vulnerabilities.	
Outcomes	Exchange good practices on how Centres of Government can identify and respond to future risk.	

Key issues	Elements	Questions for discussion
1. Changing nature of risks, context and capacities	<ul style="list-style-type: none"> • Definition of terms and scope • Role of Centres of Government in risk management 	<ul style="list-style-type: none"> • What is the relative role of Centres of Government in the overall risk management system? (e.g. leadership, generating demand for risk information, oversight) • How do Centres of Government obtain information on emerging and future risks? (e.g. from dedicated government units, universities) • How do CoGs ensure the quality of incoming information on risk? How do they make sense of it? • Do governments have a clear picture of their own (internal) systemic vulnerabilities? What about those of society as a whole (external)? • How do Centres of Government distinguish between operational risks and policy risks? • What lessons have been learned from ineffective risk surveillance systems? Have they led to concrete reforms?
2. Horizon scanning for future risks	Outline of key ingredients needed: <ul style="list-style-type: none"> • pole of expertise responsible for scoping future risks and opportunities • attention to 'new' risks and new combinations of 'old' risks • holistic overview based on multiple information sources ('managed diversity') • imagination and vigilance 	
3. Monitoring systemic vulnerabilities	Focusing decision-makers attention on: <ul style="list-style-type: none"> • finding the weakest link in the chain • mapping potential spillover effects and transmission belts • estimating transnational impacts 	
4. Learning from the past to face the future	Moving from "lessons observed" to "lessons learned": <ul style="list-style-type: none"> • regular audit of institutional capacities to detect and manage risks • evaluating accuracy of past projections to improve methodologies • incorporating lessons to strengthen integrated risk management 	

What is risk?

Risk refers to the combination of two factors: the probability that a potentially harmful event will occur; and the potential damage such an occurrence will cause.

Source: OECD (2003) *Emerging Risks in the 21st Century: An Agenda for Action*

Risk arises as much from failing to capture opportunities whilst pursuing business objectives as it does from a threat that something bad will happen.

Source: CIPFA *Better Governance Forum*

“All life involves some risk, and any innovation brings risk as well as reward – so the priority must be to manage risk better. We need to do more to anticipate risks, so that there are fewer unnecessary and costly crises... Risk management – getting the right balance between innovation and change on the one hand, and the avoidance of shocks and crises on the other – is now central to the business of good government.”
Rt. Hon Tony Blair. 2002

What is systemic risk?

A systemic risk is one that affects the systems on which society depends – health, transport, telecommunications...

Operational vs. policy risk

Operational risk is “the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events”
Source: *Basel Committee (2004)*

Policy risk is related to: “decisions about policies, programmes and services where future uncertainties are economically significant & unavoidable”
Source: *OECD Working Party on Regulatory Management & Reform (24/04/06)*

Three roles of government in managing risk:

- managing its own business (e.g. delivery of services)
- regulation, by providing a legal framework where the activities of businesses & individuals generate risk
- stewardship, in the protection of individuals, businesses and the environment from risks imposed on them from outside

Source: *UK Strategy Unit (2002) Improving government's capability to handle risk and uncertainty*

Enhancing risk prevention and mitigation

- Identify & strengthen vulnerable points in the system
- Improve resilience of overall ‘system architecture’
- Offset transmission of risks between critical infrastructures (e.g. electricity & telecommunications)
- Ensure back-up systems are in place
- Avoid reliance on single system provider
- Promote a ‘safety culture’ & greater risk awareness
- Identify potential international spill-over effects

Canada: risk management cycle



Source: *Treasury Board of Canada (2001) Integrated Risk Management Framework*

Learning lessons by asking the right questions

- Were there any precursors to the occurrence?
- Did the occurrence correspond to earlier assessment?
- How did the disaster spread and whom did it affect?
- How did people react, were warning signals received?
- Were there any unexpected factors of vulnerability?
- Which trends contributed to creating vulnerabilities?
- Which protections failed, and why?
- Were there effective incentives to avoid or mitigate risk?
- Was the regulatory framework conducive to preventing risk?

Across the government, there were failures of imagination, policy, capabilities and management. The most important failure was one of imagination.[...] Imagination is not a gift usually associated with bureaucracies.
The US 9/11 Commission Report (2004)