



## Risk Appetite Framework

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V0.1	29/10/2020	Draft	Vicky Green	New framework in line with Audit recommendations
V0.2	10/11/2020	Draft	Vicky Green	Additional comments added from Jo Froggatt and Chris Clarke
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## Contents

<b>Risk Appetite .....</b>	<b>3</b>
<b>Risk appetite definition.....</b>	<b>3</b>
<b>Why define risk appetite? .....</b>	<b>3</b>
<b>Risk appetite levels .....</b>	<b>3</b>
<b>Risk appetite Statement .....</b>	<b>4</b>
<b>i. Overall Risk Appetite and Risk Tolerance.....</b>	<b>4</b>
<b>ii. Detailed Risk Appetite .....</b>	<b>5</b>
<b>iii. Application of Risk Appetite .....</b>	<b>6</b>
<b>iv. Approach to Risk Appetite .....</b>	<b>7</b>
<b>Risk Appetite – Decision Matrix .....</b>	<b>8</b>

# Risk Appetite

## Risk appetite definition

*'The level of risk that the Council and its leadership team are willing to take on, accept, tolerate or be exposed to in pursuit of Council objectives.'*

## Why define risk appetite?

Our risk appetite should clarify the options available to us, the risks that we can take and those which we need to avoid or reduce as a priority.

A risk appetite framework has been formalised in conjunction with the Council's Corporate Risk Strategy to provide clear guidance to all officers, managers, members and partners on the level of risk which can be accepted. It should be used to ensure consistency in, and accountability for:

- The reporting and management of existing or emerging risks
- The extent of governance arrangements and controls required
- Assessments of the suitability of proposals (savings, strategies, policies etc.)

## Risk appetite levels

The Council uses the following definitions of risk appetite levels. At each level there is a *balance between risk and reward*, with 'hungry' risk appetite offering the highest risk and reward and 'averse' offering the lowest.

- ❖ Hungry - Where we seek out innovative delivery options and choose options offering the highest reward despite significant risks which are not able to be managed. Activities themselves may potentially carry, or contribute to, a high (red) residual risk.
- ❖ Open - Where we consider all potential delivery options, seek greater reward, are aware of the risks and can put in place actions to moderate these risks. Activities themselves may potentially carry, or contribute to, a moderate / high residual risk.
- ❖ Cautious - Where we seek to deliver safe options with a low degree of risk and limited reward. Activities undertaken may carry a high degree of inherent risk that is deemed controllable to a large extent.
- ❖ Minimalist - Where we seek to deliver very safe options with a low degree of risk which will return a very limited reward. Potential for reward / pursuit of opportunity is not a key decision driver.
- ❖ Averse - Where we focus on avoiding risk & uncertainty. Activities undertaken will be those considered to carry virtually no inherent risk.

The Council's risk matrix is used to measure the likelihood and impact of potential risk events. The methodology is explained fully as part of Step 2 (Risk Analysis) of the risk management process outlined in the [Council's Corporate Risk Strategy document](#).

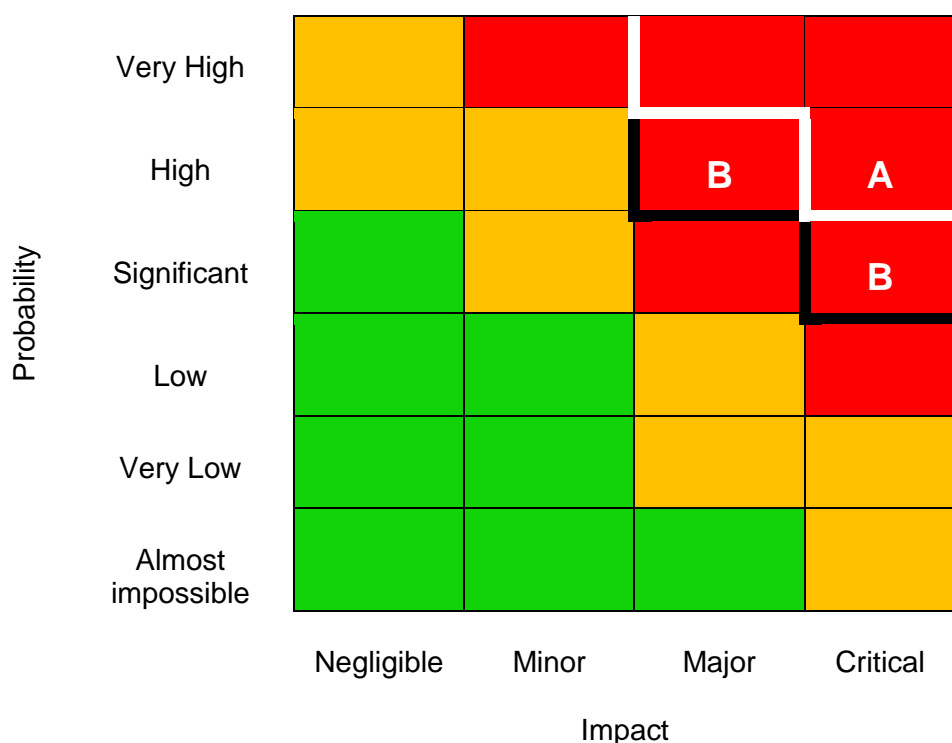
## Risk Appetite Statement

We are not averse to taking risks, and our approach is based on judgement of the circumstances and the changing environment surrounding each potential risk and an assessment of its impact. This means:

- When we review existing or emerging risks we intervene to the extent necessary to manage risks within appetite.
- In making new decisions we ensure any risk exposure is within the same common risk appetite boundaries. Risks identified will be stated and assessed in the EDR and ODR documents.

### i. Overall Risk Appetite and Risk Tolerance

At a summary level, we have established the broad levels of residual risk which may be accepted or tolerated for overall general application, monitoring and control.



The Council's overall broad risk appetite is displayed in the risk matrix below:

Risk rating Score	Risk rating action required
18-24 (A)	Risks at this level sit above the tolerance of the Council and are of such magnitude that they form the Council's biggest risks. The Council is not willing to take risks at this level and action should be taken immediately to manage the risk. Corporate Risks, monitored by CLT
15-16 (B)	These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible. Corporate Risks, monitored by CLT

5-12	These risks sit on the borders of the Council's risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases then risk owners should seek to manage the increase. Corporate Risk only if deemed threat to delivery of Corporate Objectives
3-4	These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk.
1-2	Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives.
Impact 4, Likelihood 1	Rare events that have a catastrophic impact form part of the Council's Business Continuity Planning response.

#### Key Principles

1. Considering overall risk appetite and tolerance levels is mandatory as a starting point
2. **An assessment against the 'Detailed Risk Appetite' must be made before making any decisions** on risk acceptance, or the required mitigations

#### ii. Detailed Risk Appetite

An overall corporate risk appetite has been set as a guiding principle for all residual risks as it is rare for a significant risk facing the Council to be purely composed of just one type of risk, or to impact upon only one directorate. The Council's large-scale and significant risks are interrelated, and often form part of a wider collection or cluster of risks.

Whilst an awareness of risk interdependencies is important, the Council has set a greater risk appetite for some areas than others and this needs to be applied in any risk analysis and decision making.

**All risk assessments must be made against five standardised perspectives/lenses which each have a distinct risk appetite as follows:**

- 'Open' risk appetite – not to be exceeded for Operational and Financial risks.
- 'Cautious' risk appetite - not to be exceeded for Legal, Reputational and Commercial risks.

The extent of risk acceptance and the urgency and extent of mitigation required must be a product of the risk assessment against the five risk perspectives and the risk appetites set.

The risk assessment tool in the Risk Management Strategy provides guidance on how each type of risk should be dealt with.

### The Council's approved Risk Appetite

- ✓ **'Open'** risk appetite is acceptable as an upper risk limit (boundary) for
  - Operational Risk
  - Financial Risk
  
- ✓ **'Cautious'** risk appetite is acceptable as an upper risk limit (boundary) for
  - Legal and Regulatory Risk
  - Reputational Risk
  - Commercial Risk

### Risk Perspectives:

#### 1. Financial Risk

Risk to the Council's balance sheet, assets and liabilities, funding, income and spending levels.

#### 5. Operational Risk

Risks to the effective and efficient delivery of Council services and business continuity.

#### 2. Reputational Risk

Risks of adverse or damaging perception of the Council by the general public and Ashfield residents.

#### 4. Legal Risk

Risks of breaching the law, legal action, losses, fines and other sanctions arising from non-compliance with laws and regulations.

#### 3. Commercial

The consequences of weaknesses in the management of commercial partnership resulting in poor performance and failure to meet objectives.

### iii. Application of Risk Appetite

In recognising the diversity of the Council's functions and operating environments, the Council's risk appetite is designed to enable delivery of effective innovation and change within clear boundaries to ensure strong governance and stewardship.

A key principle is of accountability. Whilst the opportunities for well managed risk-taking have been formally established, those providing risk information to support decision makers are responsible for robust risk assessments and clear communication of decision-related risk. In turn, decision makers are responsible for approving decisions with full consideration of the associated risks in accordance with the Council's risk appetite.

- ✓ Risk appetite should not be applied as a rigid target, but as a level of risk that we are willing to take if supported by a strong consideration of financial and non-financial costs, benefits and risks.

- ✓ A risk appetite decision making guide has been produced in figure 1. It should be used to communicate the risk associated with decisions, and ensure the Council's risk appetite is not exceeded.
- ✗ It is not acceptable to make decisions which exceed the risk appetite, or to fail to effectively measure and manage new or existing risks.

#### **iv. Approach to Risk Appetite**

The Council's Risk Strategy outlines how risks should be identified, assessed, managed and monitored through the different activities and functions of the Council in order to meet the overarching risk appetite requirements.

This is to ensure that:

- Risk registers are widely used to ensure risk appetite is not systematically breached and that all risk are managed with risk tolerance.
- When making decisions, there is a strong awareness of the opportunities available for taking risk, together with the accountabilities for managing any risk exposures.

The Risk Appetite Decision Matrix (Appendix 1) outlines the principles and characteristics demonstrated at different risk appetites, and should be used as the Council's common frame of reference when assessing and communicating risk appetite.

**Risk Appetite – Decision Matrix**

The following table provides a sample of risk appetite developed against a selection of the risk categories recommended in the government orange book for risk appetite.

		<b>Risk Appetite</b>				
		<b>Averse</b>	<b>Minimal</b>	<b>Cautious</b>	<b>Open</b>	<b>Eager</b>
<b>Financial</b>		Avoidance of any financial impact or loss, is a key objective.	Only prepared to accept the possibility of very limited financial impact if essential to delivery.	Seek safe delivery options with little residual financial loss only if it could yield upside opportunities.	Prepared to invest for benefit and to minimise the possibility of financial loss by managing the risks to tolerable levels.	Prepared to invest for best possible benefit and accept possibility of financial loss (controls must be in place).
	<b>Operations</b>	Defensive approach to operational delivery - aim to maintain/protect, rather than create or innovate. Priority for close management controls and oversight with limited devolved authority	Innovations largely avoided unless essential. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators.	Innovation supported, with clear demonstration of benefit / improvement in management control. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to ‘break the mold’ and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.
<b>Reputational</b>		Zero appetite for any decisions with high chance of repercussion for organisations’ reputation.	Appetite for risk taking limited to those events where there is no chance of any significant repercussion for the organisation.	Appetite for risk taking limited to those events where there is little chance of any significant repercussion for the organisation.	Appetite to take decisions with potential to expose organisation to additional scrutiny, but only where appropriate steps are taken to minimise exposure.	Appetite to take decisions which are likely to bring additional governmental / organisational scrutiny only where potential benefits outweigh risks.
<b>Legal</b>		Play safe and avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge.	Want to be reasonably sure we would win any challenge.	Challenge will be problematic; we are likely to win and the gain will outweigh the adverse impact.	Chances of losing are high but exceptional benefits could be realised.
<b>Commercial</b>		Zero appetite for untested commercial agreements. Priority for close management controls and oversight with limited devolved authority.	Appetite for risk taking limited to low scale procurement activity. Decision making authority held by senior management.	Tendency to stick to the status quo, innovations generally avoided unless necessary. Decision making authority generally held by senior management. Management through leading indicators.	Innovation supported, with demonstration of benefit / improvement in service delivery. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to ‘break the mold’ and challenge current working practices. High levels of devolved authority – management by trust / lagging indicators rather than close control.