Risk Appetite - Briefing Paper

Context

A recent Internal Audit of risk management arrangements identified effective risk management structures and reporting arrangements, but raised the following recommendation.

"The Council's 'Risk Maturity' and 'Risk Appetite' should be formally defined and illustrated on measurable scales within the Risk Management Policy, Strategy & Methodology, or within supplementary documentation."

Definition

An important stage in the Risk Management process is the identification and communication of an organisational 'Risk Appetite', which represents the level of risk an organisation is prepared to tolerate before it takes protective action.

Risk Appetite represents *"the range of exposure that is judged tolerable for the Authority."* (Risk Management Policy, Strategy and Methodology)

Aim

To assist the Council in setting a balanced and clearly defined risk appetite to:

- help members, managers and officers consider risks in a consistent way across all Directorates;

- facilitate consistent monitoring and management of risks by all relevant officers, as supported by the Council's risk management network.
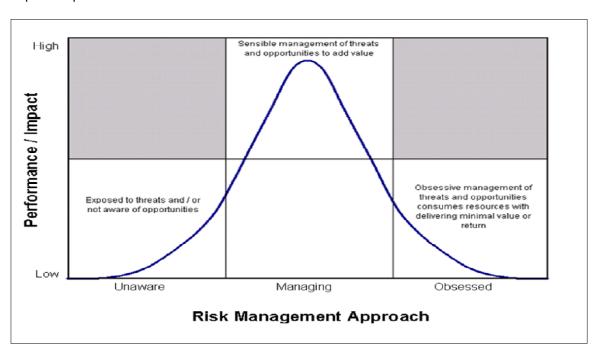
Considerations

It is increasingly important for the Council to identify innovative solutions and to explore new approaches in carrying out its operations.

Such opportunities will naturally bring new risks, both specific to the opportunity identified and in a wider context to the Council.

Only in extreme circumstances will it be found that value for money can be achieved by the total elimination of risk from any given situation.

The diagram below demonstrates the aims of a balanced approach in managing risks effectively in order to achieve optimum performance.

Approach

A risk management assessment task has been prepared, for completion by the Senior Management Team, Directors and the Risk Management Steering Group.

The task includes 10 questions on the risk appetite in Cardiff Council, the answers to which will help inform the Cabinet on a wide range of key stakeholder views when setting a corporate risk appetite.

Glossary of Key terms

Risk Spectrum

Averse	Avoidance of risk and uncertainty is a key organisational objective
Minimalist	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward.
Cautious	Preference for safe delivery options that have a low degree of residual risk and may only have limited potential for reward.
Open	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc.).
Hungry	Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk.

Risk Management Categories

Strategic Risk	This is the risk arising from the possible consequences of strategic decisions taken by the Council, or the risk of a failure to achieve our strategic vision, and should be identified and assessed at the Executive and senior management level of the Council.
Financial Risk	This is the risk of changes in the Council's financial condition and circumstances, such as for example, in its balance sheet assets and liabilities, its funding, income and spending levels.
Service Delivery Risk	This is the risk arising from the nature of the Council's business and operations, for example, the risk of a failure to deliver statutory or other services to residents, to fail to provide required quality in services, or to fail to provide appropriate services in the event of an emergency.
Legal & Compliance Risk	This is the risk of successful legal action being taken against the Council, or of the Council breaching law in its activities and operations, and is also the risk of losses, possibly fines, and other sanctions arising from non-compliance with laws and regulations.
Reputational Risk	This is the risk of a significantly adverse or damaging perception of the Council by the general public and Cardiff residents.