

## 1. INTRODUCTION AND BACKGROUND

- 1.1 This annual statement of risk appetite is drawn up by the Council in line with best professional practice and in support of the aims and objectives of the Chartered Institute of Public Finance (CIPFA) and Society of Local Authority Chief Executives (SOLACE) guidance - Delivering Good Governance Guide 2012.
- 1.2 It is intended that Cabinet review and approve the statement to ensure that the risks the Council is willing to take to achieve the its strategic vision are measured, consistent and compatible with the Council's capacity to bear and manage risk and do not expose the Council, or its stakeholders, to an unknown, unmanaged or unacceptable degree of risk exposure.
- 1.3 This statement of risk appetite is also to be read and understood in conjunction with the Council's risk management strategy which is reviewed annually and for 2013/14 this is scheduled to occur in the spring/early summer of 2013. The approved council statement of risk appetite will then be incorporated into the risk management strategy as an appendix to it.

## 2. DEFINITION OF RISK APPETITE

- 2.1 The risk appetite of the Council can be defined as *"the amount and type of risk that an organisation [the Council] is prepared to seek, accept or tolerate"* (Source: British Standard on Risk Management BS31100 2008) or similarly, *"The amount of risk that an organisation is willing to seek or accept in the pursuit of its long term objectives"* (Source: Institute of Risk Management: Risk Appetite and Tolerance; Guidance Paper 2010).
- 2.2 Risk is defined "as a barrier to the achievement of strategic objectives" and risk management as "the process of understanding and managing the risks that an organisation is inevitably subject to in attempting to achieve its corporate objectives" (CIMA Official Terminology 2005). Risks can be seen not only as the more conventional threat or hazard type risks, they can also take the form of positive risk opportunities, or benefits to be exploited or innovated by the Council and its partners in entrepreneurial terms and which can enhance, increase and accelerate the achievement of its objectives.
- 2.3 The Council's statement of risk appetite has two aspects to it. This is firstly to clearly and fully state and quantify, and also to disclose to its stakeholders, the nature and extent of the key risks it is taking on and is willing to embrace as part of the delivery of the corporate plan. This can be seen as its inherent or "gross" risk acceptance during the year.
- 2.4 Secondly, it is to clearly set an organisational policy within the Council, also communicated to its officers and stakeholders, in regard to what quantifiable level of risk exposure it is prepared to retain after control and mitigation action has been taken in relation to these risks, and after which point, no further action or mitigation will be undertaken by the Council in regard to the exposure. This can be seen as its residual or "net" risk exposure during the year.
- 2.5 Generally organisational attitudes to risk, including public sector organisations, can be said to range across a spectrum of attitudes and appetites, ranging from **Low Risk** or risk-averse appetites at one end of the scale (here there is avoidance of any form of risk and uncertainty as a key organizational objective) through to an intermediary **Medium Risk** or cautious approach to risk (here the organisation's preference is for safe delivery options

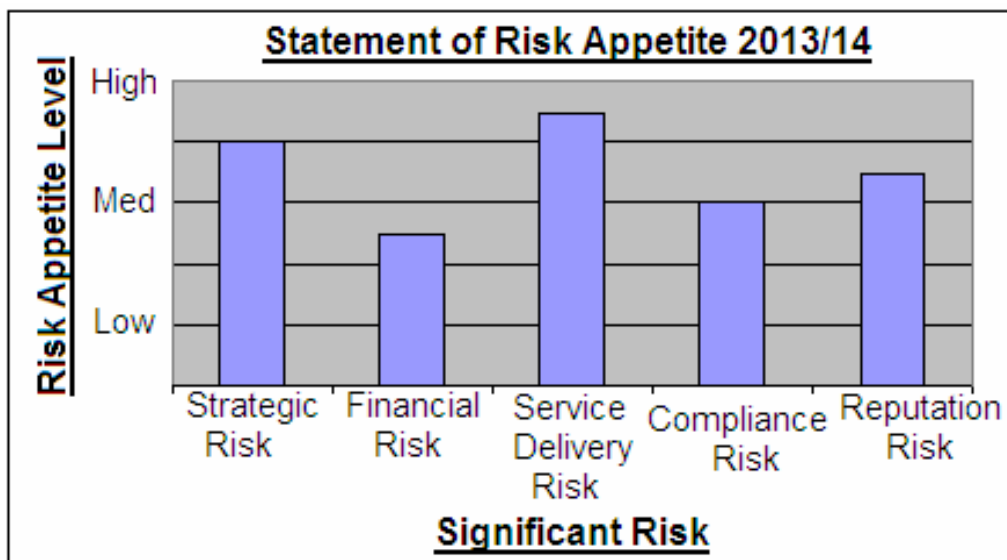
that have a low degree of inherent risk) then ranging to a **High Risk** or risk-seeking position (the organisation is innovative and chooses service delivery options offering higher customer satisfaction and quality despite greater inherent risk in these activities).

- 2.6 It is important to note that gross and net risk appetites may often vary across different types of risk, at different times, and may even vary across different directorates and key corporate functions depending at which stage these directorates and functions are at in their business cycle, and that an organisation’s overall gross risk appetite is often a composite or average of these different underlying risk appetites.
- 2.7 The range or spectrum of risks comprising significant risk is commonly defined as being made up of five major categories of risk - strategic, financial, service delivery, legal and finally reputation risks. These are outlined in greater detail below.

**3. THE COUNCIL’S RISK APPETITE IN 2013-14**

- 3.1 During 2013-14 the Council will overall take fair, measured and targeted levels of risk to achieve its vision Working Together; Our Harrow, Our Community. It will be innovative and will consider all potential business and service options choosing those options in risk terms that are most likely to result in successful delivery (particularly a visible increase in the level and quality of services to our residents) but at the same time will provide an acceptable level of return to the Council, a reduction in the Council’s operating costs and in the generation of target savings, operating efficiencies and economies of scale as required by the current climate of financial prudence in local government.
- 3.2 The Council’s appetite for its key business and significant risks can be shown graphically in summary terms and via the main types of significant risk it faces as follows:-

*Diagram 1: Statement of Risk Appetite 2013-14*



- 3.3 Further to the above diagram, the Council will therefore in the main in 2013-14 take medium risks but also additional targeted higher levels of risk in order to achieve its strategic objectives.

- 3.4 Where significant risks arise the Council and its officers will take effective control action to mitigate these to minimal and safe levels of risk exposure for stakeholders.
- 3.5 The Cabinet accepts in regard to the taking of risk that there may often be early failure and set-back in the longer term process of obtaining the returns and outcomes from delivery of the Council's strategic vision, particularly in regard to developing new and innovative processes at the Council necessary to realise that vision.
- 3.6 The Cabinet will therefore be supportive to all council officers in the taking of necessary, calculated and measured risk in order that the objectives the Council has set for itself can be achieved during this time of financial austerity, challenge and change.
- 3.7 As mentioned above the nature and main types of significant risk that the Council will take on as part of its risk portfolio in 2013-14 will be as follows:-

- (a). Strategic Risk
- (b). Financial Risk
- (c). Service Delivery/Business Risk
- (d). Legal and Compliance Risk
- (e). Reputation Risk

- 3.8 These risks can be defined as follows:-

*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 and 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 Harrow residents.

#### **4. THE COUNCIL'S STRATEGIC VISION AND THE NATURE AND MAIN TYPES OF SIGNIFICANT RISK BEING TAKEN ON BY THE COUNCIL IN 2013-14**

- 4.1 Harrow is generally a pleasant and prosperous place to live and the Council provides a wide range of services that improve the quality of life for residents, support vulnerable

people and which enhance community cohesion. The Council's key objectives and priorities are:

- Keeping neighbourhoods clean, green and safe;
- United and involved communities: a Council that listens and leads;
- Supporting and protecting people who are most in need; and
- Supporting our Town Centre, our local shopping centres and business;

We will achieve our objectives in collaboration with our partners and our communities demonstrating our strategic vision: Working Together; Our Harrow, Our Community.

4.2 The Council is also further developing a number of under-pinning core outcomes that it wishes to deliver in support of the key objectives outlined above. The draft core outcomes are as follows:-

- Children, young people and vulnerable adults are protected from harm and abuse
- Harrow's streets, buildings and open spaces are kept clean
- Harrow residents are supported to overcome worklessness, homelessness and poverty
- Harrow residents enjoy good mental health
- Harrow residents are able to lead independent and fulfilling lives
- Harrow residents are healthy and live longer
- More Harrow residents participate in art, sport, leisure and cultural activity
- People in Harrow feel safe
- Harrow residents and businesses enjoy local economic prosperity
- Harrow residents and businesses minimise their impact on the environment
- A strong and sustainable voluntary and third sector
- Harrow residents feel they can have their say on the issues that matter most to them
- Narrow the gap in educational attainment of young people in Harrow
- Diversity is celebrated and people feel they get on well together.

4.3 Because the Council, in line with all other local authorities, is facing significant and continuing spending constraints, the core outcomes will help the Council make difficult spending decisions that will lead to some services being radically remodelled and others possibly ceasing altogether. The most distinctive aspect of Harrow is the diversity of its population. Harrow is a very ethnically and religiously diverse place. 78% of the school population have a non-white British heritage showing that demographic change is continuing and will accelerate. Whilst the 2011 Census data has not all been made fully available yet, the information we do have shows a significant growth in the Borough's population also demonstrating that Harrow is an attractive place to live.

4.4 However during the past year homelessness in the borough has begun to increase and with this the impact of national welfare reform policies has begun to be seen in increasing demand for Council services. Unemployment in Harrow is below the London average but, as Harrow's economy is dominated by public sector employment, and which sector also exists alongside a high proportion of small business enterprises (both of which are under great pressure in the current economic climate), local employment opportunities may be more limited in the future.

4.5 As mentioned above should be noted that risk appetite may often vary across different directorates, corporate and partnership functions at the Council depending at which stage

these directorates, corporate functions and partnerships are at in terms of their business and service delivery cycles. The Council’s overall organisational risk appetite will be an average or composite of these different individual appetites which exist at directorate and corporate levels, and which are then taken together and consolidated to produce a single overall council statement.

4.6 It is important to the fullness of the statement that individual directorates and key corporate risk appetites are captured so that the overall statement can be understood and supported with underlying evidential reference to them. The appetite for taking on significant risk to achieve the Council’s strategic objectives is outlined below. Strategic Commissioning, Major Projects and Partnerships have been selected to show the corporate dimension to risk appetite as they are positioned closely to driving and monitoring major new service delivery initiatives at the Council in 2013-14:-

Diagram 2: Appetite for Acceptance of Strategic Risk

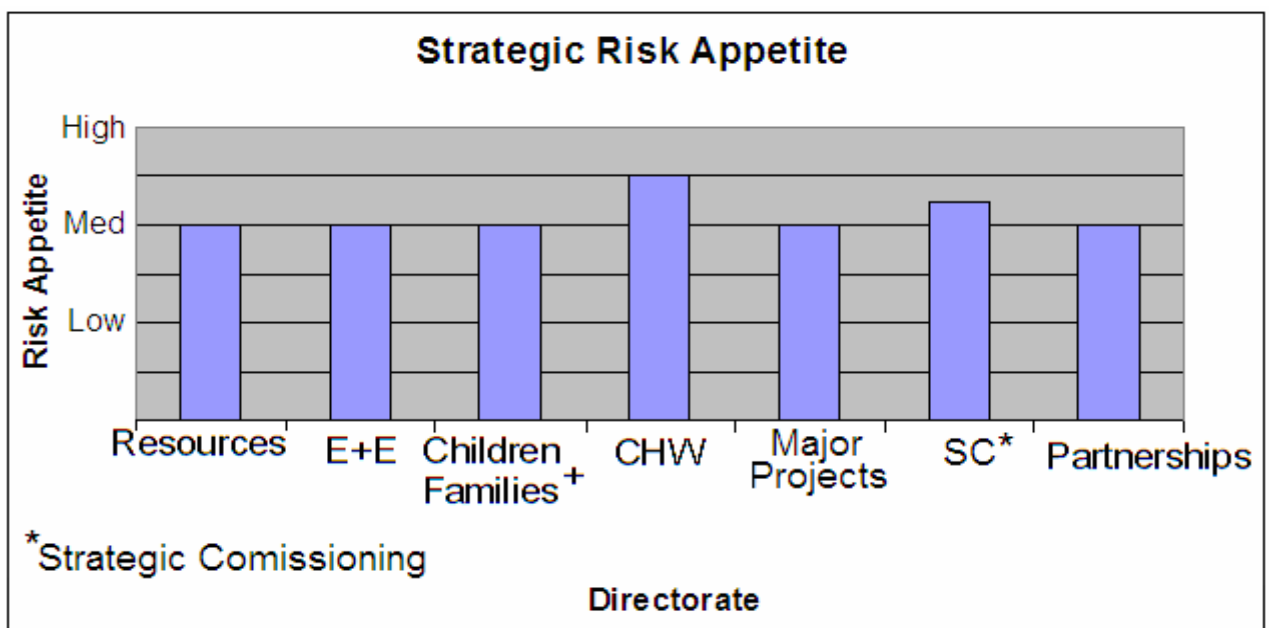


Diagram 3: Appetite for Acceptance of Financial Risk

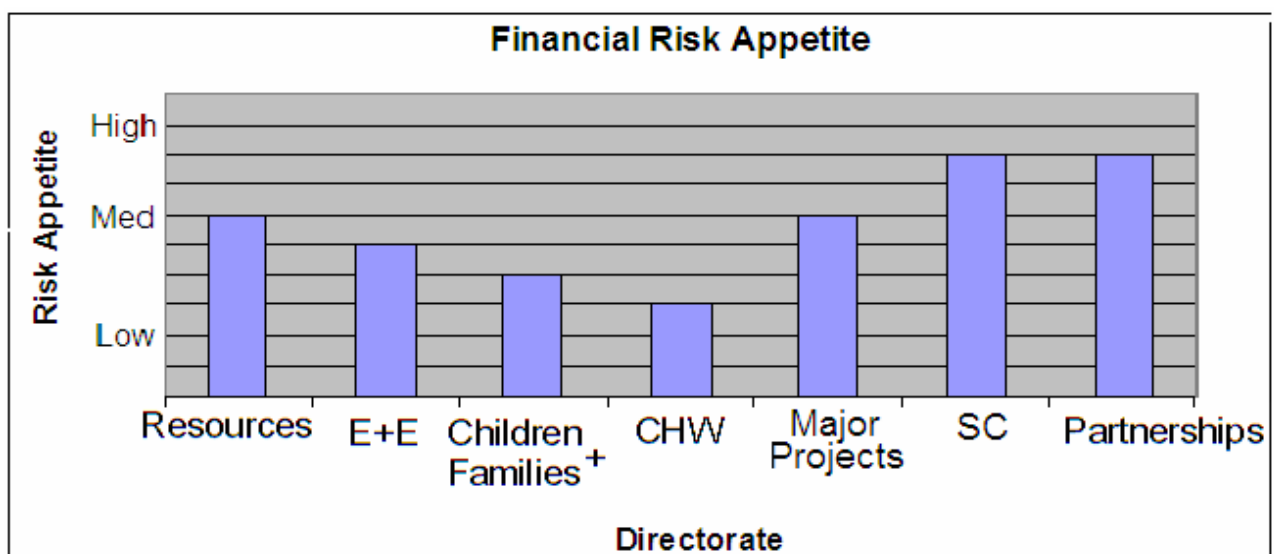


Diagram 4: Appetite for Acceptance of Service Delivery Risk

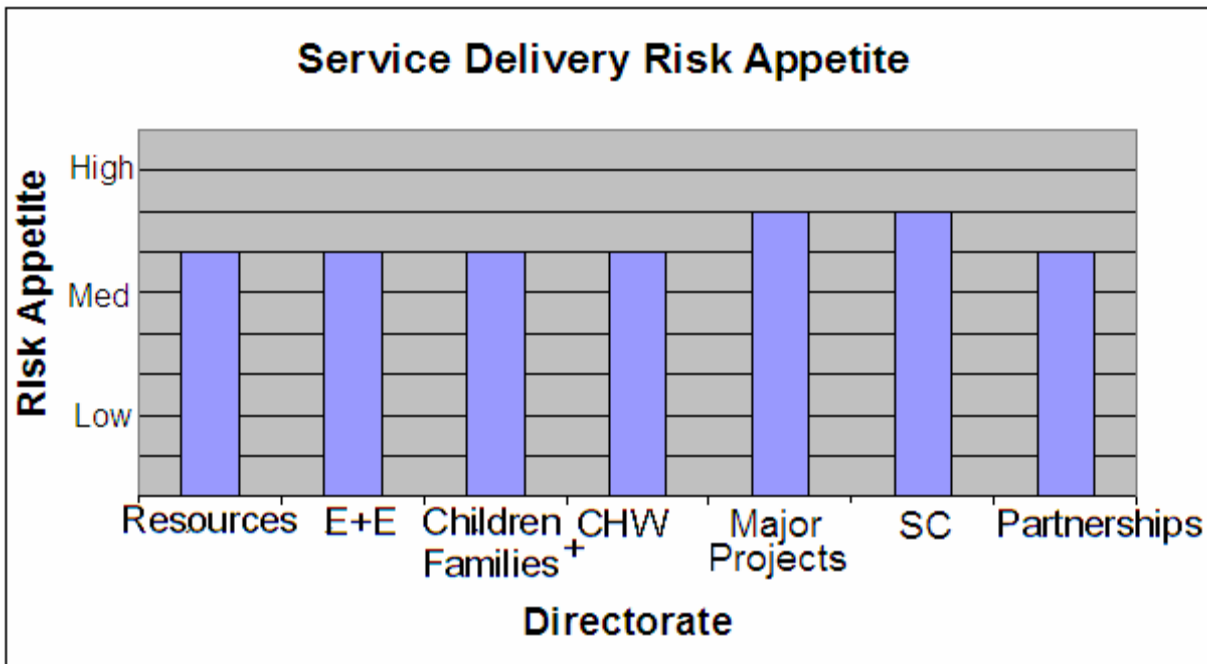


Diagram 5: Appetite for Acceptance of Legal and Compliance Risk

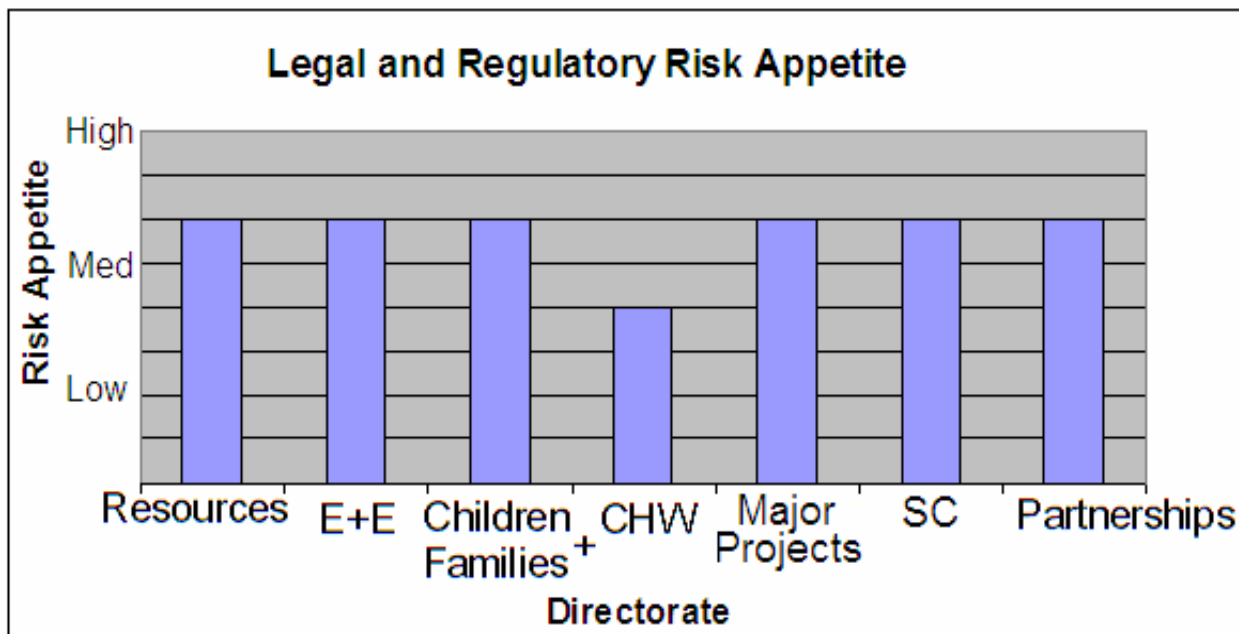
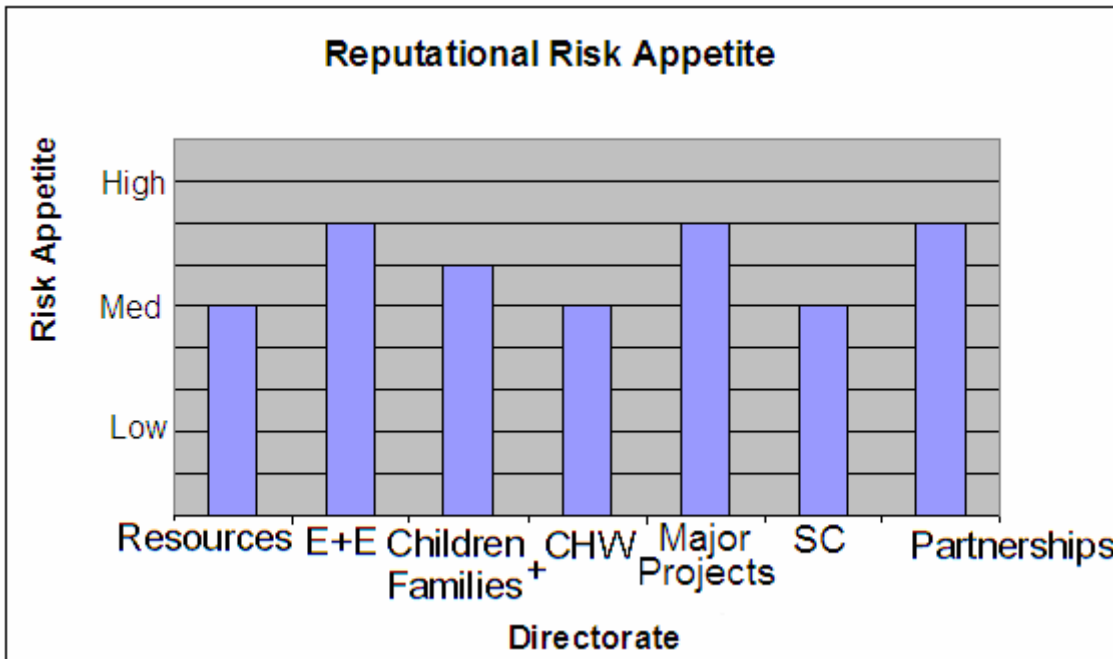
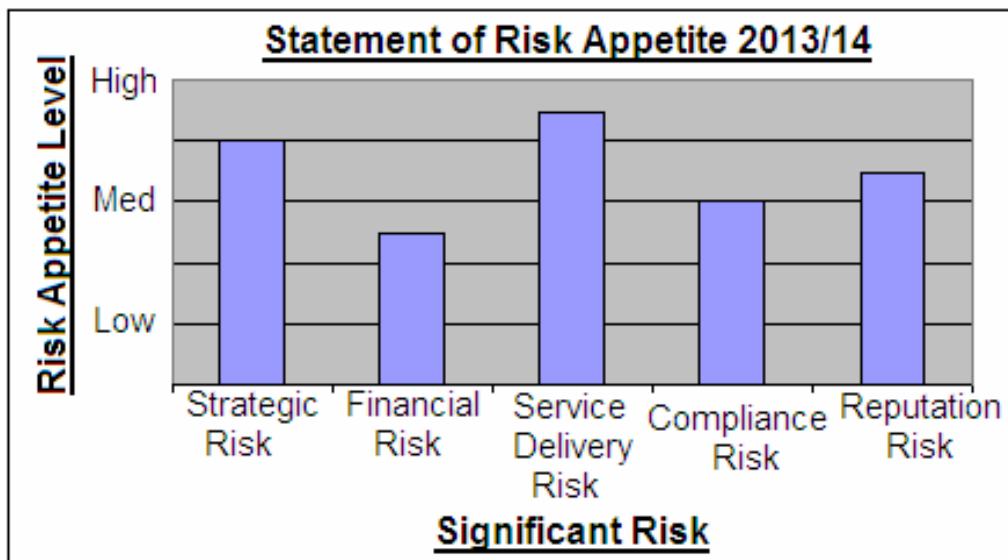


Diagram 6: Appetite for Acceptance of Reputation Risk



4.8 Overall and in summary the Council’s appetite for these risks can thus be shown graphically again in as follows:-





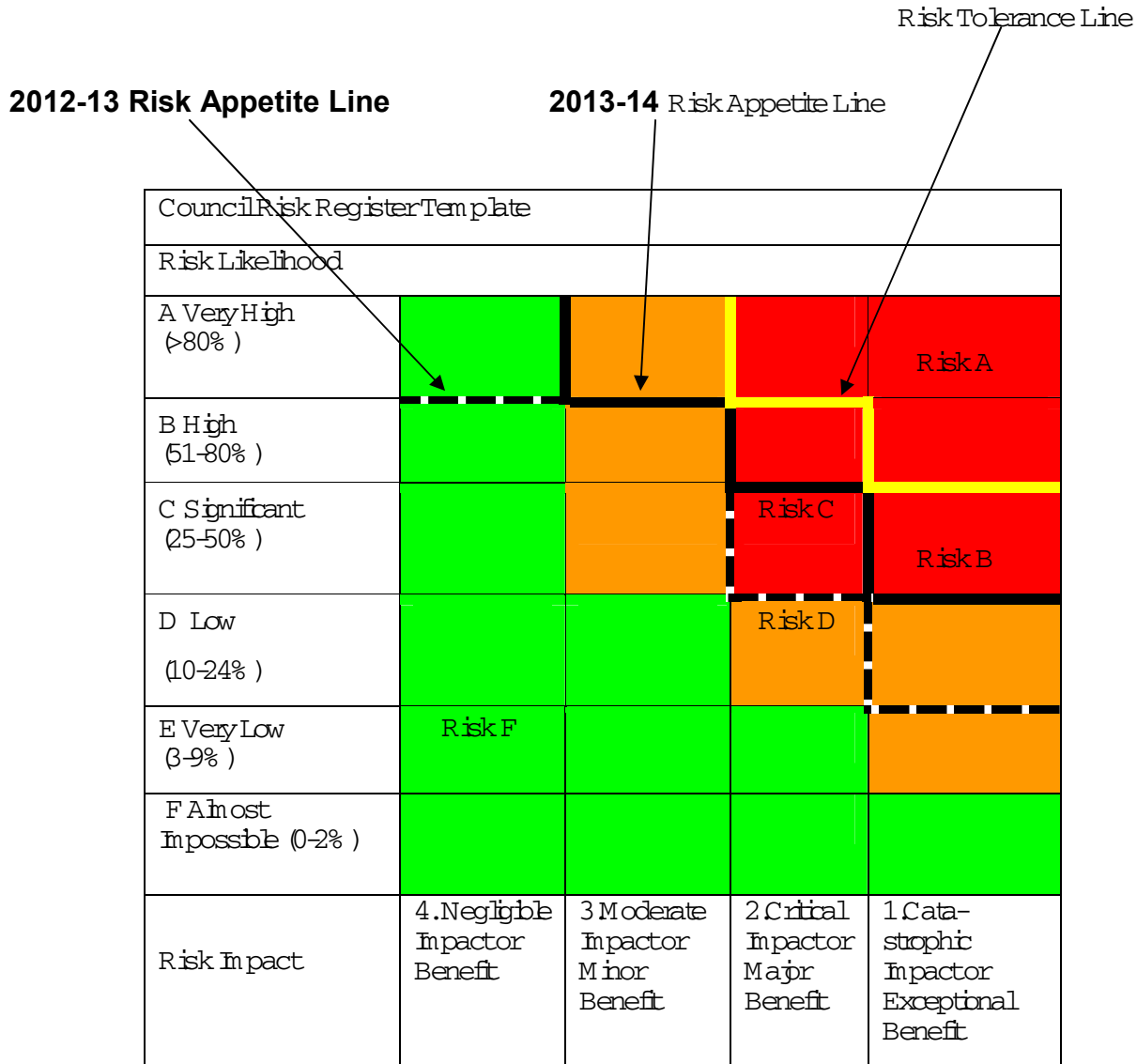
- 4.9 The above risks are normal and consequential for the Council in conducting its business and delivering services across its directorates. They are generated in business terms by the ambition for and the delivery of the council's strategic vision and organisational transformation, and exist with strong reference to the challenging macroeconomic and microeconomic environment in the UK, including centrally the levels of government funding and required and continuing spending reductions in the public sector. These factors have increased the level of total business risk required to be taken on by the Council in order to deliver its vision.
- 4.10 The Council believes that over 2013-14 and beyond, it has the leadership, organisational capacity and control environment in place to enable it to safely bear this higher level of risk and to manage and mitigate it downwards to appropriate and acceptable levels of net residual risk exposure consistent with a local authority.

## **5. NET RISK LEVELS TO BE RETAINED BY THE COUNCIL IN 2013-14**

- 5.1 Whilst the different types of risk above will commonly have different risk appetites and the appetites may vary from directorate to directorate, it is rare for any significant risk facing the Council to be purely composed of just one type of risk above, or to relate solely in impact to just one directorate. Most significant and large scale risks will be commonly composed of several risk dimensions and often have a relationship and inter-dependency in impact and likelihood terms with other risks and directorates.
- 5.2 The unifying factor in the Council's key, potentially large-scale and significant risks, are that they are inter-related in this way and form part of a wider collection of risks and risk exposure to the Council.
- 5.3 Management of this key exposure is most effective and efficient when undertaken in common and collective terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different directorates. For this reason all of the above Council significant risk types will be subject to the same managed down net risk appetite level, which will itself be risk-based, and will be driven by the significance and scale of the risk concerned and whether that significance is high, medium or low.
- 5.4 As mentioned above net risk is the final level of exposure of unguarded and unprotected risk the Council is willing to take and so at this point exercise the "do-nothing" option in regard to the risk.
- 5.5 The Council's net risk appetite for negative threat risks (as opposed to positive opportunity risks) is shown below in Diagram Eight by the bolded risk appetite/target risk rating line in the Council's standard risk register template attached at Annex A of this Appendix :-



Diagram 8: Risk Appetite for Negative Threat Risks



- 5.6 It is to be noted firstly that risk appetite has increased since 2012-13 and this is reflected in the raising of the 2013-14 line above the dotted 2012-13 line of risk appetite.
- 5.7 However it is arguable that as 2012-13 was the first time the Council had plotted its line of risk appetite as part of the Statement, it understated it and the actual level of risk taking in 2012-13 was higher than this and this level has continued and remains constant into 2013-14 and is as represented by the 2013-14 line above.
- 5.8 Risk appetite (as indicated by the above risk appetite line) relates positively to the risks that the Council wants to take. Risk tolerance (as indicated by the above risk tolerance line and this line is plotted for the first time by the Council in 2013-14) by contrast relates to risks the organisation is not willing to take and is the outer boundary line beyond which it will not under any circumstances venture into risk-taking.
- 5.9 Understanding both lines is important to a full and complete understanding of an organisation's wider and indeed de facto risk appetite. This is because it is generally and professionally recognised (see Institute of Risk Management: Risk Appetite and Tolerance Paper 2010) that there will be risks that an organisation takes, which it does not actually want or positively desire to take, and which are not in truth part of its risk appetite, but

which may be forced upon it (eg by changes in socio/economic political environmental factors beyond its control) and which it has no alternative but to take and so to tolerate. Although true in most organisations, it is true only up to certain point, and this point is the line of risk tolerance. It represents the limit of the organisation's tolerance for any form of risk beyond which it will not venture. Below this line and in the gap between the line of risk appetite and the line of risk tolerance are where tolerated risks position themselves.

- 5.10 Risks which are assessed as above the risk tolerance line are unacceptable in any form to the Council. Immediate action must be taken to either terminate or transfer the Council's involvement in these risks.
- 5.11 Risks which appear above the risk appetite line (but below the risk tolerance line – the outer boundary of risk-taking) are undesirable but tolerable risks and these require immediate and urgent management action to manage them down to an acceptable level of exposure. Management must ensure control action taken is sufficient, balanced and comprehensive enough to achieve moving these risks to below the target risk appetite line. In the above example Risk A is unacceptable because it is outside the boundary of risk tolerance. This risk must be immediately exited or transferred.
- 5.12 In the above model Risk B is undesirable (but may be tolerated) as it is above the line of risk appetite but below the line of risk tolerance. Immediate control action must occur to reduce it to target exposure level below the risk appetite line. Risks at an exposure below the risk appetite line are deemed acceptable as risks to be taken on and they similarly should be mitigated to their target exposure level as part of the risk management process. In the above example Risks C and D are deemed acceptable.
- 5.13 However if in the management of a risk there is a marked or significant variation or distance from the actual line of risk appetite then this could lead to the risk being disproportionately over managed to a level which is again effectively outside of the Council's risk appetite. In the above example Risk F has been over managed. This is because a marginal or relatively small scale risk should it impact has been managed in resource terms to an almost impossible level of likelihood and this is disproportionate to the risk being faced.
- 5.14 The Council thus recognizes that all risks should not be managed to the same extent but it should be noted further to the line of risk appetite that all significant risk (ie critical or catastrophic) will in all circumstances where possible be managed down to a low or very low net target risk exposure. Where, furthermore, the risk is deemed to be of lesser scale than critical or catastrophic, a higher degree of risk exposure and lesser levels of mitigation (enabling a higher degree of measured and entrepreneurial risk-taking in business terms by officers) will be encouraged further to the pursuit of the Council's strategic objectives.
- 5.15 Where a target risk level is in excess of the risk appetite exposure of the Council as indicated above, the risk must be escalated to the next management level for discussion, as part of normal risk reporting, e.g. department to division, division to directorate, improvement board to directorate level (project risks to the relevant project or programme and/or directorate boards) and, ultimately, from directorate level to the Operations Board and/or the Corporate Strategic Board (CSB) of the Council. The framework for the reporting and escalation of risks within the Council is based on the organisational structure and normal reporting lines. As part of the escalation process, the next management level of the Council will be alerted to the risk and will therefore review and reassess it in terms of

its impact and likelihood on the achievement of objectives at that next level and will take action as appropriate. This may mean:-

- managing the risk directly in terms of its mitigation and control
- adjusting the level of risk they judge suitable for the level below to manage
- transferring the risk, if possible, appropriate, or cost effective to do so
- changing the activity giving rise to the risk or exiting the activity giving rise to the risk

5.16 The Council’s risk appetite for positive opportunity risks will similarly be risk-based and is unchanged from 2012-13 and is shown below with reference to the standard risk register template:-

Diagram 9: Risk Appetite for Positive Opportunity Risks

Council Risk Register Template				
<b>Likelihood</b>				
A Very High (>80%)			OPP C	
B High (51-80%)	OPP F			OPP D
C Significant (25-50%)		OPP E	OPP A	
D Low (10-24%)				OPP B
E Very Low (3-9%)				
F Almost Impossible (0-2%)				
<b>Impact</b>	4. Negligible Impact or Benefit	3 Moderate Impact or Minor Benefit	2. Critical Impact or Major Benefit	1 Catastrophic Impact or Exceptional Benefit

Line of Risk Appetite/Target Risk Rating for Positive Risk Opportunities

5.17 All opportunities which appear below the risk appetite line are not being fully exploited and will require management action by officers of the Council in order to more fully exploit them and move them to a position of realization. In the above example Opportunities A and B are unacceptable for this reason. Opportunities managed to a level above line are deemed acceptable because they are being exploited in line with the Council’s opportunity risk appetite. In the above example Opportunities C, D and E are deemed acceptable.

5.18 However it is to be noted, as in principle with negative threat risks, that in the areas above the line, if there is any marked or significant variation or distance from the actual line of opportunity risk appetite, then that opportunity is being over managed. Opportunity F in the example above is being over-exploited as it has been managed to high level of likelihood when it offers only a negligible benefit or reward relative to other opportunities and this is disproportionate.

- 5.19 In this way management should endeavour to stay above but close to the line of opportunity risk appetite and should prioritise larger scale opportunities which have a reasonable prospect of success over smaller scale opportunities which may have higher levels of likelihood.
- 5.20 Where a positive risk opportunity is indicated as being managed outside of the Council's risk appetite then this will be escalated as part of normal risk reporting processing to the next management level for review and action as outlined above in regard to negative threat risks.

## **6. DUTY OF OFFICERS**

- 6.1 All of the Council's elected Members and its staff and officers, including when they are working in partnership with other organisations, have a general duty and responsibility as part of their actions and agencies on behalf of the Council to manage risk as an integral part of their role, which includes ensuring they comply at all times with the framework and provisions of the risk appetite of the Council as outlined in this document.

## **7. MONITORING OF ORGANISATIONAL COMPLIANCE**

- 7.1 Compliance with this risk appetite statement will be regularly monitored and reported on an on-going basis to CSB and other key council groups (both corporate and directorate) acting in a monitoring and challenging role in regard to risk management arrangements.
- 7.2 Compliance will be further monitored by the GARM committee of Members who monitor and challenge risk management activities and progress at the Council.
- 7.3 Compliance will also be audited by the Council's internal audit function and also as part the Council's arrangements for production of the Annual Governance Statement.

Standard Risk Register Template

RISK REGISTER

Review Date:

Next Review Date:

Risks

- 1.
- 2.
- 3.
- 4.
- 5.
- 6.
- 7.
- 8.
- 9.
- 10.

LIKELIHOOD				
<b>A Very High (&gt;80%)</b>				
<b>B High (51-80%)</b>				
<b>C Significant (25-50%)</b>				
<b>D Low (10-24%)</b>				
<b>(10-24%)</b>				
<b>E Very Low (3-9%)</b>				
<b>IMPACT</b>	<b>4</b> Negligible Impact / Benefit	<b>3</b> Moderate Impact / Minor Benefit	<b>2</b> Critical Impact / Major Benefit	<b>1</b> Catastrophic Impact / Exceptional Benefit

Standard Risk Register Template

Risk No.	Objective No.	Risk Description	Controls (in place and effective)	Risk Rating This Qtr (after controls)	Risk Rating Last Qtr	Controls (underway or planned)	Control Progress %	Target Risk Rating	Target Risk Date	Risk Owner
		Risk (Event)				Further actions				
		Cause(s)								
		Consequence(s)				Contingencies				