1. INTRODUCTION AND BACKGROUND

1.1 This annual statement of risk appetite is drawn up by the Council in line with best professional practice in corporate governance as reviewed by the Financial Reporting Council [FRC] further to the requirements of the UK Corporate Governance Code [2010] Section C: Accountability; wherein the Executive Board [the Cabinet] is responsible on an annual basis for "determining the nature and the extent of the significant risks it is willing to take in achieving its strategic objectives". It is generally recognized that a statement of risk appetite fulfils this requirement.

1.2 It is intended that Cabinet review and approve this statement jointly alongside its review and approval of the Council's corporate plan to ensure that the risks the Council is willing to take to achieve the corporate plan (its strategic objectives above) 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 The best practice corporate governance requirement to produce this statement applies further to the Code to both private and public sector organisations in the UK.

1.4 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 which was approved for 2012-13 by Cabinet in October 2011. The approved statement of risk appetite will be incorporated into to the risk management strategy.

2. DEFINITION OF RISK APPETITE

2.1 The risk appetite of the Council can be defined as "the amount and type of risk than 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 2011).

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 in entrepreneurial terms which can enhance, increase and accelerate the achievement of its objectives.

2.3 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.

2.4 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** risk-seeking position (the organisation is eager to be innovative and chooses service delivery options offering

potentially higher customer satisfaction/quality despite greater inherent risk in these activities).

2.5   It is important to note that risk appetites may often vary across different types of risk at different times, and may even vary across directorates in these terms and that an organisation's overall risk appetite is often a composite or aggregate of these different risk appetites.

2.6   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 types of risks it is taking on and is willing to embrace (or to exploit) as part of the delivery of the corporate plan. This can be seen as its inherent or "gross" risk acceptance during the year.

2.7   Secondly, it is to clearly set an organisational policy within the Council, also communicated to its stakeholders and officers, 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.

3.   THE COUNCIL'S RISK APPETITE IN 2012-13

3.1   During 2012-13 the Council will have in the main an overall cautious appetite for taking significant risk to achieve the corporate plan and for delivering council services in support of this. Where significant risks arise (defined as above as strategic, financial, service delivery, legal and reputation) the Council and its officers will take effective control action to mitigate these risks to minimal and safe levels of net residual risk exposure to stakeholders. This can be shown graphically as follows:-

Diagram 1: Council Net Residual Risk Appetite for Significant Risk in 2012-13
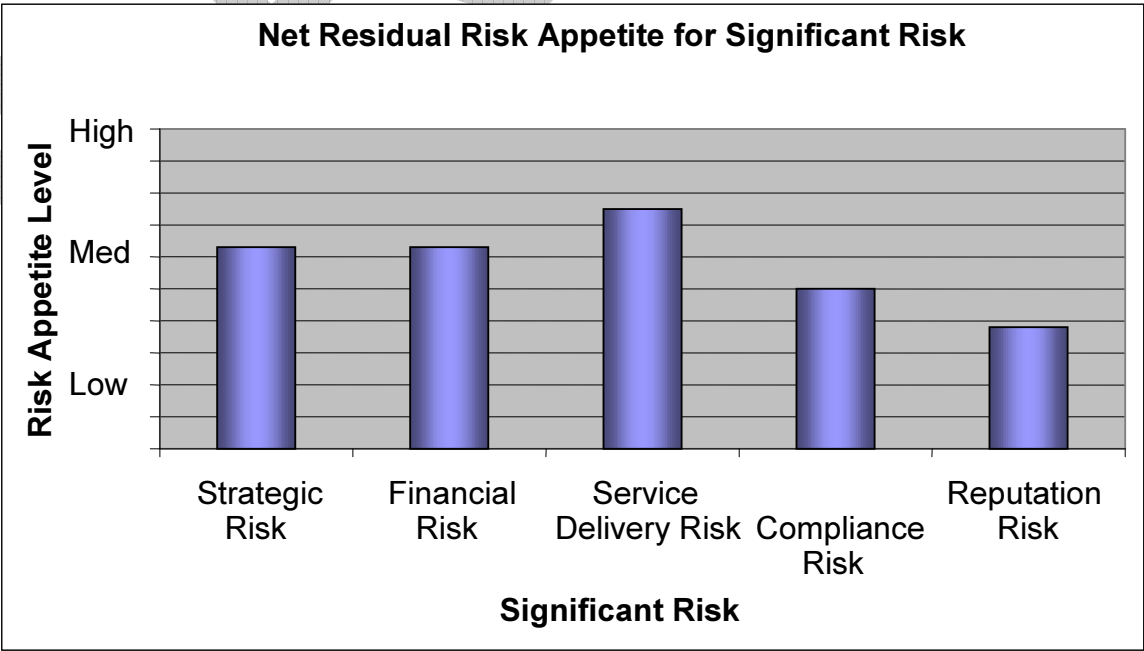
3.2   It is to be noted that whilst the Council will maintain an overall cautious approach, it will also have areas within this where a higher level of risk will be taken such as in, for example, in supporting innovation in service delivery. These will be offset by areas where it maintains a lower than cautious appetite such as in, for example, matters of compliance with law and public confidence in the Council, leading to its overall cautious organisational position on risk.

4.   THE CORPORATE PLAN AND THE NATURE AND MAIN TYPES OF SIGNIFICANT RISK BEING TAKEN ON BY THE COUNCIL IN 2012-13

4.1   Harrow Council provides a wide range of services that improve the quality of life for residents, support vulnerable people and which enhance community cohesion. Over the last five years, the quality of those services generally has improved from in some areas being lower-quartile in terms of Councils in London to being awarded the title of best achieving Council in the UK in the Municipal Journal awards in June 2011. The Council's key risk management challenge is to maintain and advance its excellent services while at the same time managing significant reductions in its spending power. The Council's strategic 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;

4.2   These will help the Council decide how to best allocate and manage its reducing resources. The Council will work in strong collaboration with its partners and in its communities in demonstrating its vision: Working Together; Our Harrow, Our Community.

4.3   During 2012-13 and beyond the Council will continue to look for efficiency savings to meet the exacting financial targets set by Government. As well as looking at all services to seek better ways of achieving agreed outcomes, the scale of the savings required has placed additional emphasis on the need for transformational change, that is, changing completely the way in which the Council delivers its services and how it involves it partners. The landscape and range of transformational change includes:

- consideration of the Council's growing role as a commissioning organisation;
- implementing earlier interventions to improve the quality of life of, for example, families with complex needs, and reducing their call on public services;
- participating in schemes to reduce re-offending to reduce the social cost of crime;
- Developing common assessment and service signposting with partners to improve access to services and reduce the costs of multiple assessments;
- Reducing the number of public buildings used to deliver services in Harrow and combining services to make using them simpler; and
- Considering a common access point for more if not all public services.

4.4   Further to setting the above strategic objectives, the nature and main types of significant risk that the Council will take on as part of its risk portfolio in 2012-13 will as above be as follows:-

(a). Strategic Risk
(b). Financial Risk
(c). Service Delivery Risk

(d). Legal and Compliance Risk

(e). Reputation Risk

4.5   The appetite for each of these risks, on a "gross" or inherent risk basis, and on a directorate by directorate basis (produced further to direct engagement of corporate directors on their directorate's risk appetite) is outlined below:-

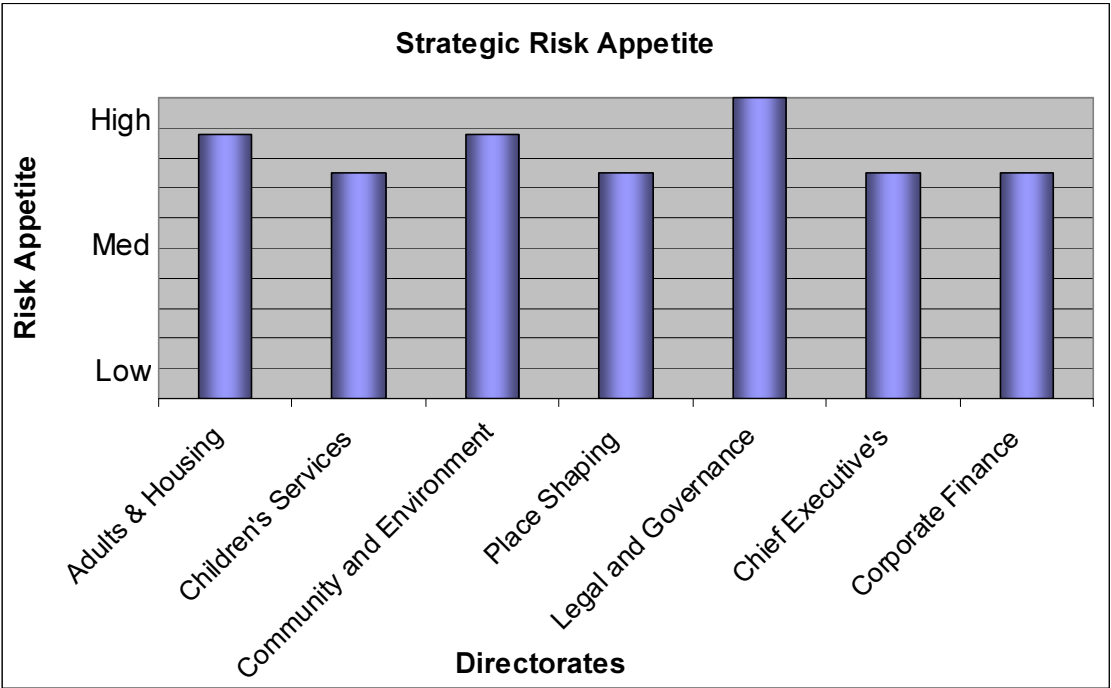*Diagram 2: Appetite for Acceptance of Strategic Risk*

Strategic Risk Appetite

Diagram 3: Appetite for Acceptance of Financial Risk

Financial Risk Appetite
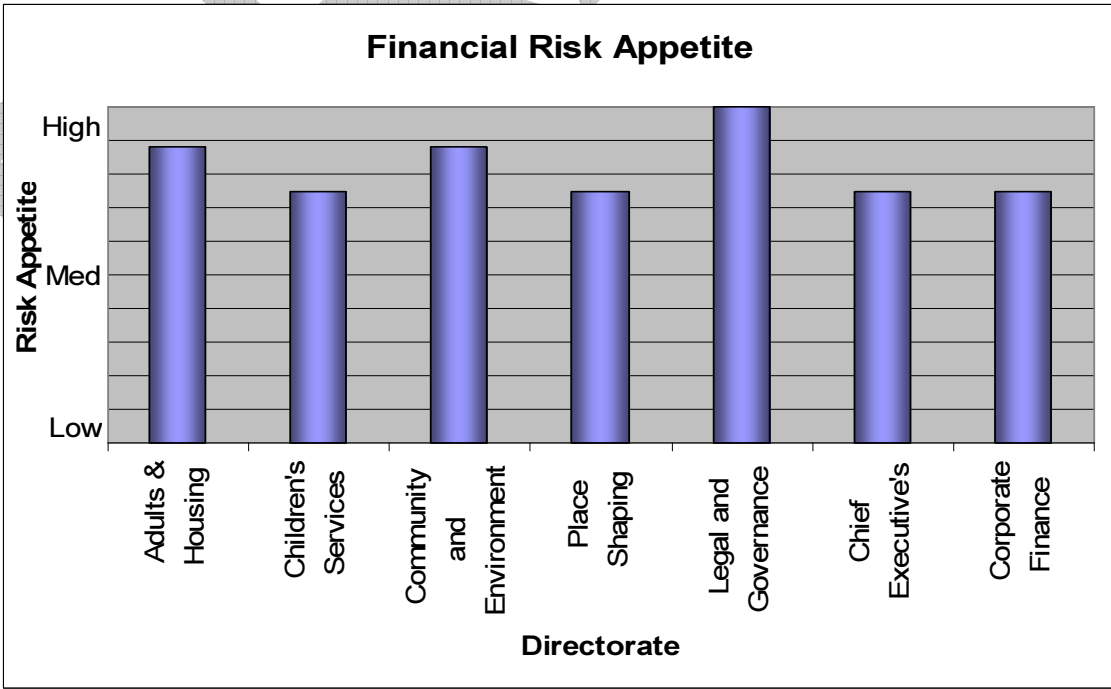
Diagram 4: Appetite for Acceptance of Service Delivery Risk

Service Delivery Risk Appetite
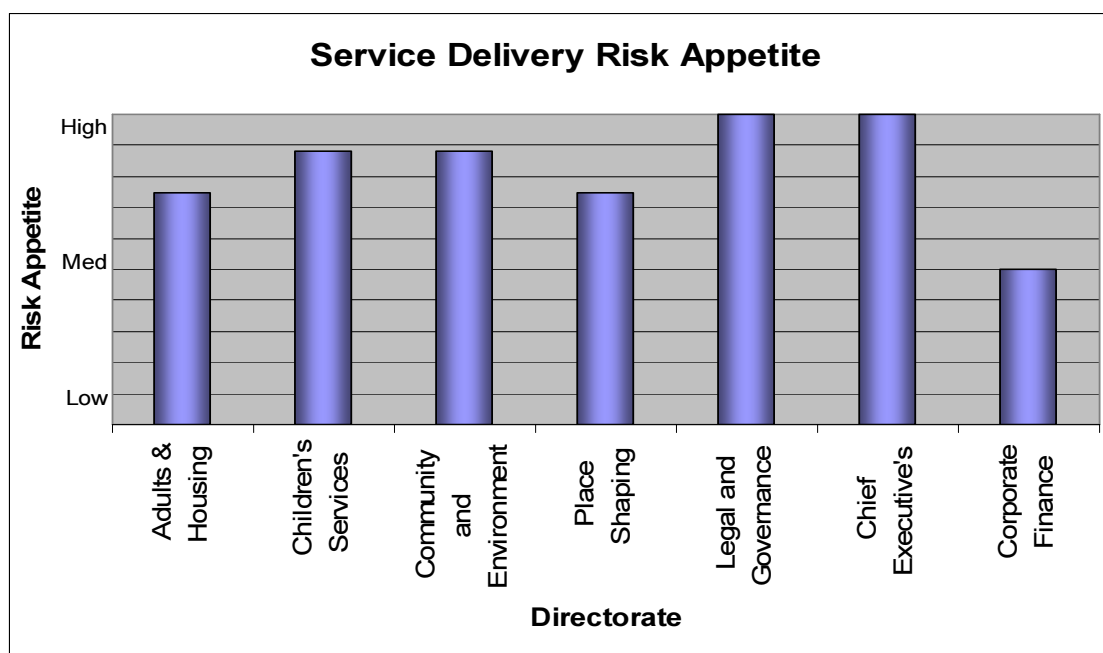
Diagram 5: Appetite for Acceptance of Legal and Compliance Risk

Appetite for Legal and Compliance Risk
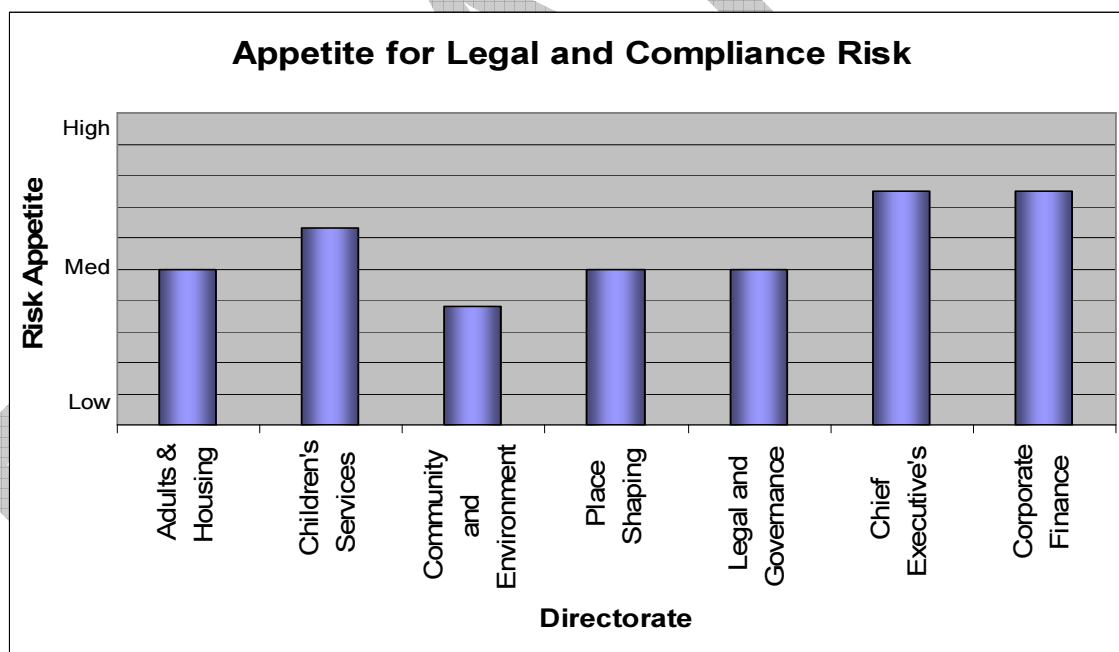
Diagram 6: Appetite for Acceptance of Reputational Risk

Appetite for Reputational Risk
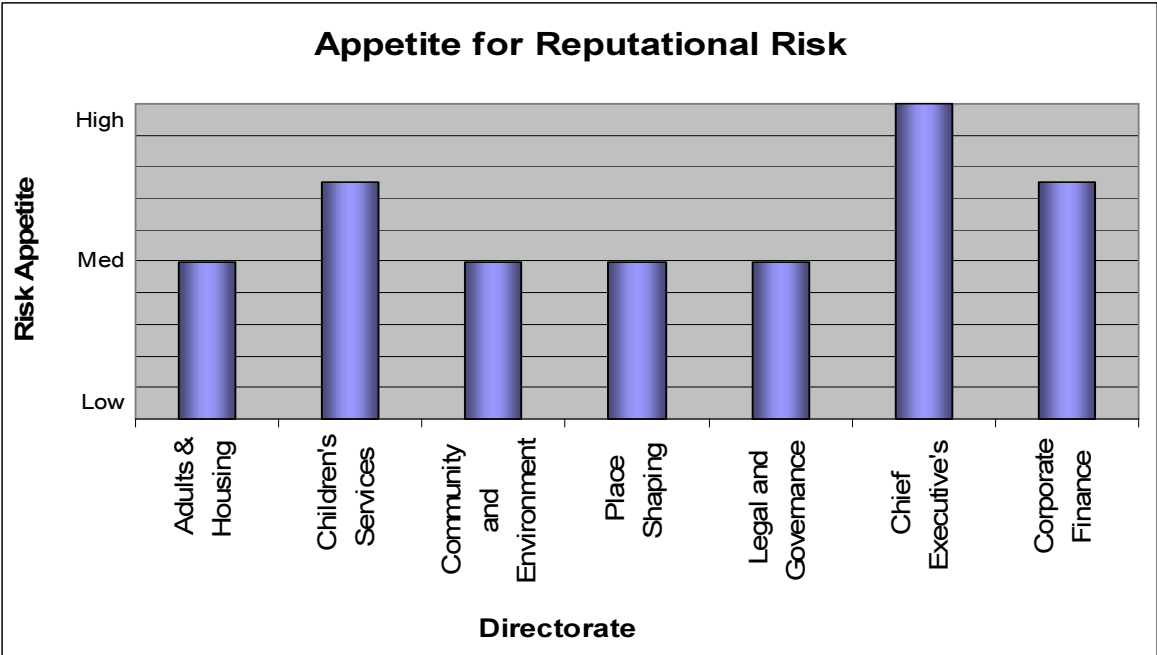
4.6   The Council's appetite for significant risk when collaborating with its partner organisations can be shown below:-

Diagram 7: Partnership Appetite for the Acceptance of Significant Risk

Partnership Appetite for Significant Risk
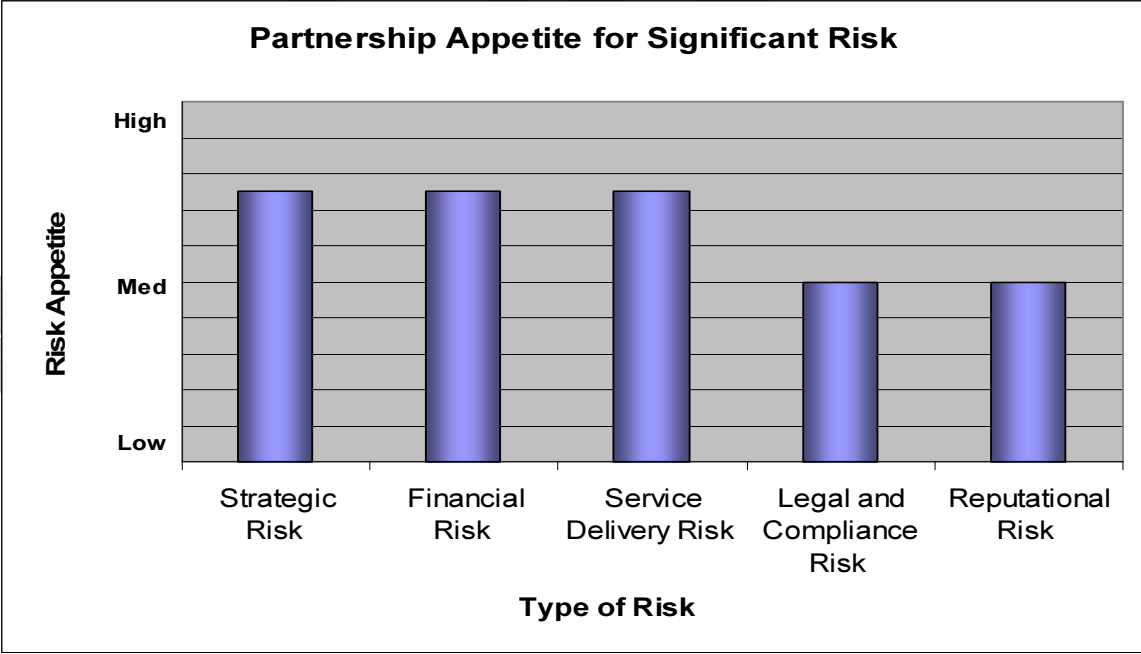
4.6   The above risks are normal and consequential for the Council in conducting its business and delivering services across its directorates. They are generated in strategic and business terms by the ambition for and the delivery of the corporate plan, and exist with strong reference to the now challenging macroeconomic and microeconomic environment in the UK, including centrally the levels of government funding and required 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 corporate plan.

4.7   Consequently in 2012-13 the Council will be accepting and taking on additional and increased levels of inherent risk than in previous years and in this respect now has a higher gross risk acceptance appetite.

4.8   However it believes that over 2012-13 and beyond it has the leadership, resilience, organisational capacity, capability 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 RESIDUAL RISK LEVELS TO BE RETAINED BY THE COUNCIL IN 2012-13

5.1   Whilst the different types of risk above will commonly have different circumstances and appetites attached to them within the Council, and 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.

5.2   Most significant and large scale risks will be commonly composed of several risk dimensions and often have an inter-relationship in impact and likelihood terms with other risks and also other directorates.

5.3   The unifying factor of all of the Council's key, potentially large-scale and significant risks are that they are thus inter-related and form part of a wider collective or portfolio effect of risk exposure to the Council.

5.4   Management of this exposure is most effective and efficient when undertaken in common, collective and portfolio terms, rather than on an individual risk by risk basis or appetite by appetite basis varying across different directorates.

5.5   For this reason all of the above Council significant risk types will be subject to the same managed down residual 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.

5.6   As mentioned above residual 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.

5.7   The Council's residual risk appetite for negative threat risks (as opposed to positive opportunity risks) is shown below by the bolded risk appetite/target risk rating line in the Council's standard risk register template which is attached at Appendix A:-

Diagram 8: Risk Appetite for Negative Threat Risks

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

Line of Risk Appetite/Target Risk Rating

5.8   All risks which appear above the risk appetite line are deemed unacceptable to be carried by the Council in residual or target risk terms and will require management review and action by officers of the Council. Management must ensure control action taken is sufficient, balanced and comprehensive enough to achieve the target risk appetite rating. In the above example Risks A and B are unacceptable. Risks at an exposure below the line are deemed acceptable. In the above example Risks C, D, and E are deemed acceptable.

5.9   However in the area beneath the line, in which risks are acceptable, if there is any 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.

5.10   The Council thus recognizes that all risks should not be managed to 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, however, the risk is deemed to be of lesser scale than critical or catastrophic, a higher degree of residual risk exposure and lesser levels of mitigation (enabling a higher degree of risk-taking) to achieve the corporate plan will be tolerated.

5.11   Where a residual or target risk level is in excess of the risk appetite exposure of the Council as indicated above, the risk must further to the Council's risk management strategy 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 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

5.12   The Council's risk appetite for positive opportunity risks will similarly be risk-based as below:-

Diagram 9: Risk Appetite for Positive Opportunity Risks

| Council Risk Register Template				
Likelihood				
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%)				
Impact	4. Negligible Impact or Benefit	3.Marginal Impact or Minor Benefit	2. Critical Impact or Major Benefit	1.Cata-strophic Impact or Exceptional Benefit

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

5.13   This is shown above by the bolded risk appetite line in the Council's standard risk register template which is attached at Appendix A:

5.14   All opportunities which appear below the risk appetite line are deemed unacceptably realized 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.

5.15   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 but only offers a negligible benefit or reward.

5.16   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.

5.17   Where a positive risk opportunity is indicated as being managed outside of the Council's risk appetite then this will 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.

5.18   As outlined above in the Executive Summary, overall the Council's net residual risk appetite for its key and significant risks in 2012-13 is cautious in broad risk terms as shown below:-

Diagram 10: Council Net Residual Risk Appetite for Significant Risk in 2012-13
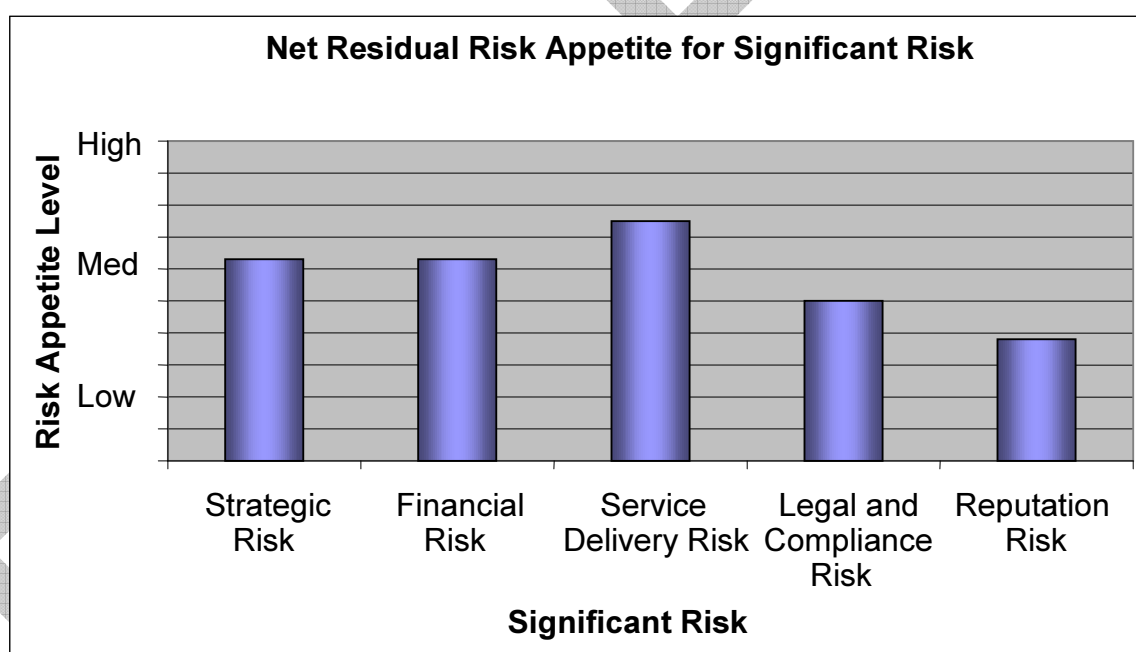
6.   DUTY OF OFFICERS

6.1   All officers of the Council, including all staff, Members, managers, as well as our partner 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 by the corporate risk management function as part of normal risk

reporting, supported by the Corporate Risk Steering Group (CRSG), the Council's directorate-wide risk champion's forum, acting in its monitoring and challenging role in regard to risk management arrangements.

7.2   Compliance will also 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   Appendix A

RISK RIGISTER

Review Date:

Next Review Date:

Risks

1.

2.

3.

4.

5.

6.

7.

8.

9.

10.

LIKELIHOOD				
A Very High (>80%)	🟩	🟧	🟥	🟥
B High (51-80%)	🟩	🟧	🟥	🟥
C Significant (25-50%)	🟩	🟧	🟥	🟥
D Low (10-24%)	🟩	🟩	🟧	🟧
(10-24%)	🟩	🟩	🟩	🟧
E Very Low (3-9%)	🟩	🟩	🟩	🟩
	4 Negligible Impact / Benefit	**3** Marginal Impact / Minor Benefit	**2** Critical Impact / Major Benefit	**1** Catastrophic Impact / Exceptional Benefit
IMPACT				

Standard Risk Register Template   Appendix A (Cont'd)

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 Owner(s)	Target Risk Rating	Target Risk Date	Risk Owner
		Risk (Event)				*Further actions*					
		Cause(s)									
		Consequence(s)				*Contingencies*					

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