

## **Risk Appetite Setting**

*Assistant Director  
Lead Officer  
Contact Details*

*Donna Parham – Finance and Corporate Services  
Gary Russ- Procurement and Risk Manager  
gary.russ@southsomerset.gov.uk or 01935 462076*

This is a copy of a report that has been considered by SSDC's Management Board regarding Risk Appetite sets for Risk Management. The Procurement and Risk Manager will attend Audit Committee to provide a verbal update.

**Purpose:** To establish if SSDC's current management board feel the risk appetite bar is set correctly in relation to the amount or impact of the risk it's prepared to accept.

**Recommendation:** That Audit Committee members note and comment on the report

**Background:** Risk management is still a new concept and management tool within the public sector, although much progress has been made in recent years in not only raising the profile of risk management but encouraging the public sector to actively engage in managing risk. The concept of actively managing risk is an issue for most public sector organisations who have in the past had very adverse risk cultures, that is to say the very culture of public services has been to push risk as far away or back up the supply chain as possible.

However SSDC has done much to raise the profile of risk and encouraged its officers to actively look for and manage risk. However risk comes in many forms and with various impacts and probabilities. Due to this variation in impact or probability it's vital that the management of risk is profiled to fit what the organisation is prepared to accept as a "Risk Appetite".

Before discussing risk appetite it's important to understand that risk in terms of its profile has two dimensions that we need to consider, they are :-

**Risk Impact:** This is the measure of how much negative impact this could have on the organisation, it can be financial, or reputational etc. Typically in our risk management system we rank this impact from:-

- Critical
- High
- Medium
- Low
- Very Low

These are risk management standard terms used to define the impact or a risk on a service or organisation.

The second measure or dimension that we need to have regard to will be probability, in broad terms this is the measure of how likely in time, or frequency if you wish, a given risk is going to happen.

- Remote
- Unlikely
- Possible
- Probable
- Highly Probable

Simply put, risk management is nothing more than doing the following in regards to the risk dimensions shown above. "The culture, processes and structures, that are directed towards effective management of potential opportunities and threats to the organisation achieving its objectives".

It is the process of identifying risks, evaluating their potential consequences and determining and implementing the most effective way of controlling and monitoring them, after taking account of mitigating controls in place.

What we do not want is this!!!!



It is often said that no organisation can make advances without taking a risk. The same is true for all organisations: no organisation, whether in the private, public or third sector can achieve its objectives without taking risk. The only question is how much risk do they need to take? And yet taking risks without consciously managing those risks can lead to the downfall of the organisation strategy or the organisation it's very self (the recent Banking Crisis in the UK being a prime example).

### Designing a risk appetite

1. Has the board and management team reviewed the capabilities of the organisation to manage the risks that it faces?
2. What are the main features of the organisation's risk culture in terms of tone at the top? Governance? Competency? Decision making?
3. Does an understanding of risk permeate the organisation and its culture?
4. Is management incentivised for good risk management?
5. How much does the organisation spend on risk management each year? How much does it need to spend?
6. How mature is risk management in the organisation? Is the view consistent at differing levels of the organisation? Is the answer to these questions based on evidence or speculation?

In viewing the chart above to ascertain how we have set the current risk appetite officers should keep in mind the categories as previously stated. That is to say the risk appetite line is drawn in regard to the presenting risk Impact and likelihood.

### Recommendation to Management Board:

So its impact would need to be Major and or Catastrophic in nature and range from Unlikely to highly probable. I would suggest as a consideration that we have set the line too broad in terms of Likelihood and it should be reset to Possible.

Impact					
Catastrophic	0	0	0	2	0
Major	0	0	0	1	0
Moderate	0	0	13	1	0
Minor	0	0	2	0	0
Insignificant	0	0	0	0	0
Inherent Risk	Remote	Unlikely	Possible	Probable	Highly Probable Likelihood

Current Risk Appetite Line Indicated by solid black Line

