

## **Appendix 3: Applying risk appetite**

The September 2021 corporate risk review paid particular attention to our risk appetite and our anticipated direction of travel for each risk. Risk owners were asked to consider how effectively risks are being managed down, or out of the register, and the extent to which controls have been effective or not. Integral to these discussions was consideration of our risk appetite, and how risks that are inconsistent with our appetite will be brought back into line.

### **Example: Ash Die Back (ADB)**

#### **Step 1: Consider the risk, its impact and residual risk score**

It is important here to select the most severe impact. For example, in the case of ADB, impacts range from increased liability, public safety, budget to reputational impacts. Of all these impacts public safety is the most severe impact.

#### **Step 2: Determine the council's risk appetite<sup>1</sup>**

On the basis that public safety is the most severe impact, we have used our appetite statement in relation to compliance and regulation.

Risk appetite suggests that because the most severe impact could be public protection, then will we only accept a cautious risk appetite and therefore, this should be at most a moderate risk, owing to the serious potential for death or injury.

#### **Step 3: Compare the appetite to the actual risk score**

Our risk management guide includes the following table. I have added a final column to demonstrate how our risk appetite statement maps onto our risk severity (this is our classification for a risk on the basis of the likelihood and impact being combined).

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<sup>1</sup> The council's risk appetite statement can be found [here](#), from page 36.

<b>Risk Score</b>	<b>Risk Severity</b>	<b>Escalation Criteria</b>	<b>Risk appetite</b>
<b>C5, D4, D5, E4, E5</b>	<b>Minor</b>	Risk easily managed locally – no need to involve management	Minimalist Cautious Open Hungry
<b>A5, B4, B5, C3, C4, D3, E2, E3</b>	<b>Moderate</b>	Risk containable at service level – senior management and SLT may need to be kept informed	Cautious Open Hungry
<b>A3, A4, B3, C2, D1, D2, E1</b>	<b>Major</b>	Intervention by SLT with Cabinet involvement	Open Hungry
<b>A1, A2, B1, B2, C1</b>	<b>Critical</b>	Significant SLT and Cabinet intervention	Hungry

Our ash die back risk is classified as B2 – Critical Risk: Likely / High impact. Critical risks, as per our risk appetite statement, should apply to only those risks for which we are risk hungry. Yet our appetite in relation to ADB, as confirmed by step 3, is cautious and should therefore be a moderate risk at most.

#### **Step 4: Discuss whether we are comfortable with the risk being inconsistent with our risk appetite**

Discussion is key. Sometimes risk owners will decide that they are not comfortable and immediate action needs to be taken to reduce/remove the risk. More often though, owners are satisfied that the controls in place will bring the risk back into line with our risk appetite statement.

ADB is a good example of a risk being beyond our appetite, but where we are comfortable with the inconsistency on the basis of our plans. In the case of ADB, there is a direction of travel with clear plans to get the risk back into our comfort zone.

#### **Step 5: Set out the anticipated direction of travel**

This conversation can help to review the effectiveness of controls, and may expose gaps in our management of the risk. Furthermore, this direction of travel will inform the continued review of the risk to ensure progress is being made in the right direction, within anticipated time frames.

Commonly, risk owners expect to see the likelihood of a risk reducing, with the impact staying the same for the foreseeable future. In the case of ADB, our current review anticipates that the residual risk will be further reduced and brought closer to, but perhaps not within, our risk appetite.