



Audit & Governance Committee  
March 2022

**Risk Management**

**Purpose of the report:**

To provide an update on risk management

**Recommendations:**

It is recommended that:

1. Members note the update on risk management
2. Members note the revised governance arrangements for risk management including feedback in March 2023 on whether these governance changes are working effectively.

**Introduction:**

3. This paper provides an update on risk management. It is structured into 2 parts :-
  - An explanation of the work commencing on Risk Appetite (which the Corporate Leadership Team approved in February 2022)
  - A review of the role of AGC in relation to risk

## Risk Appetite

### 4. Risk appetite is :

*'The amount of risk than an organisation is prepared to accept, tolerate or be exposed to at any point in time.'*

The Corporate Leadership Team (CLT) approved work on risk appetite at their monthly risk review session in February. Organisations often define their risk appetite to provide :

- Acknowledgement that there is normally a direct link between the amount of change the organisation wants to achieve and the risks with trying to realise it
- Consensus on the level of risk that is acceptable given different people have different views on the amount of risk that they think should be taken
- Clarity with explicit reference to the level of risk that the organisation is prepared to accept, tolerate or be exposed to
- Direction for those undertaking work in terms of what activities need be undertaken to align with the organisations' risk appetite. This may require undertaking different or more ambitious programmes or indeed limiting planned changes.

### 5. Fundamentally, risk appetite is about how much risk the organisation is prepared to take. Organisations must accept that some risks may materialise and result in adverse consequences in order to benefit from those activities that 'pay-off'. Typically, the higher the risk the greater the expected benefit.

*"Public sector organisations cannot be culturally risk averse and be successful. Effective and meaningful risk management in government remains more important than ever in taking a balance of risk and opportunity in delivering public services"*

*The Orange Book (government finance function) – August 2021*

### 6. There are typically 5 levels of risk appetite from averse to disruptive which an organisation can base its risk appetite on (shown on the next page). Whilst the terminology is often quite different from organisation to organisation - for example risk averse may be restated as risk opposed or risk reluctant - the application of 5 levels is quite widespread.

## 5 Levels of Risk Appetite

<b>Risk Appetite</b>	<b>Description</b>
<b>Averse</b>	Avoidance of risk and uncertainty in achievement of key deliverables or initiatives is a primary objective. Activities undertaken will only be those considered to carry virtually no risk.
<b>Cautious</b>	Preference for very safe delivery mechanisms that have a low degree of risk but in turn will not necessarily provide the best outcome.
<b>Tolerant / Balanced</b>	Preference for a balanced-option where it is appropriate that some business areas should have lower risk while acknowledging that other initiatives necessitate a higher level of risk to meet objectives. Value for Money is a key consideration.
<b>Seek</b>	Prepared to actively undertake a significant number of activities where the outcome is uncertain. Propensity to choose options with the expectation of higher returns/rewards but which may not result in successful delivery.
<b>Disruptive</b>	Eager to be innovative and to choose options based on maximising opportunities and potential higher benefit even if those activities carry a very high risk.

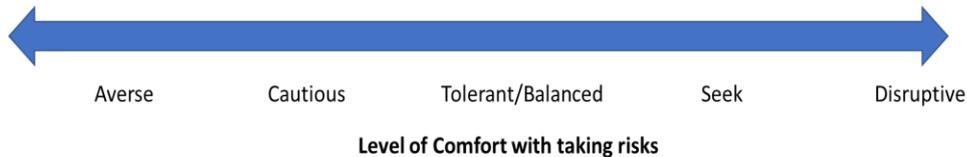
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### Typical Features of Organisations

Detailed evaluation and change processes, efficiency over speed of delivery. Often operating in major safety or regulatory requirements

Value-for-Money at the heart of decision making

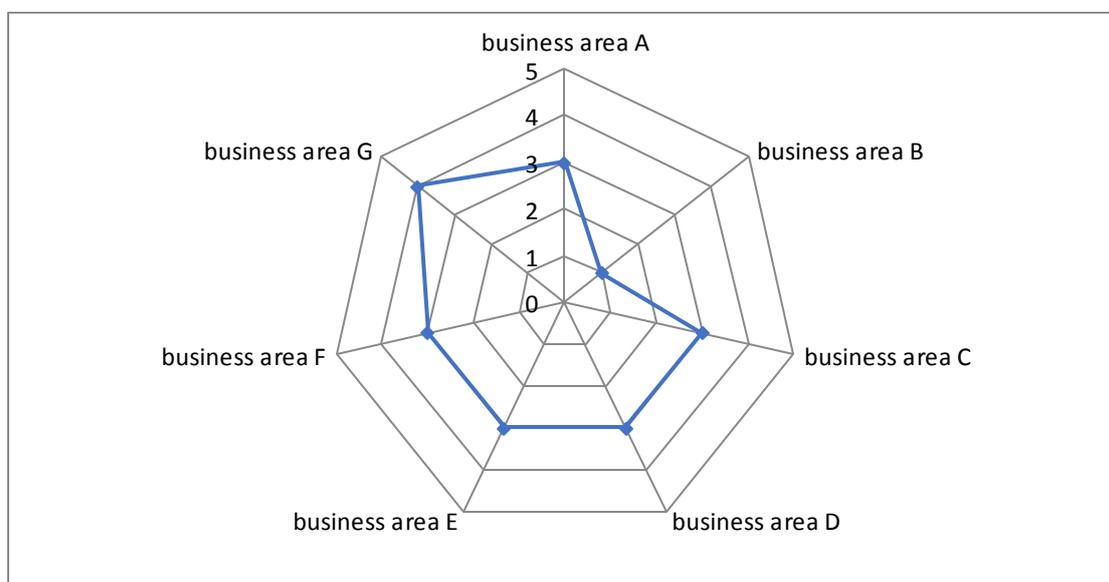
Ambitions to be first-to-market with the launch of new products and services.



- Some organisations stop at this point by having a short statement detailing their risk appetite to mirror their ambitions. While this is helpful in 'setting the tone' for the organisation around risk, the real value of looking at risk appetite is deciding those parts of the organisation which should take more or less risk.

8. 'ETI' and 'Customer & Communities' will be the first areas to assess their risk appetite. This will involve discussions with key stakeholders – including Cabinet Members – and to reach a point of an agreed risk appetite statement.
9. The work will then be widened to cover the other key parts of the organisation. Once this is completed and there are a number of risk appetite statements it will be possible to take a helicopter view of the findings to determine the overall risk appetite for the organisation. The below diagram is a useful way to visualise this.

**Example of the risk appetite map for the key business areas**



- Key :
- 0 = Withdraw from activity
  - 1 = Averse,
  - 2 = Cautious,
  - 3 = Tolerant,
  - 4 = Seek,
  - 5 = Disruptive

10. It is expected that the work around risk appetite will run until the end of the summer, but will be dependant on availability and progress in coming to an agreed position with key stakeholders. Subsequent reviews of risk appetite should take place annually to allows time to consider any changes to the external operating environment and whether there has been any significant shift in the direction of the organisation.

11. There has been a significant improvement in the risk management capabilities of Surrey County Council over the past year. This has included the focus AGC have provided principally in 4 areas:
- Ensuring that there is a risk strategy / framework in place
  - Receiving updates on the progress/effectiveness on risk management
  - Reviewing the Corporate Risk Heat Map / Risk Register
  - Performing deep dives on specific risks
12. With risk management beginning to mature, the governance arrangements required to provide the appropriate level of scrutiny have been revisited. It is helpful to remind ourselves of the ToR (terms of reference) for the AGC around risk management responsibilities, namely:

***“ To monitor the effective development and operation of the risk management and corporate governance arrangements in the council.”***

(Constitution of the Council, Part 3, Section 6.10)

13. This ToR is supported by CIPFA (Chartered Institute of Professional Finance and Accountancy) who produced a report entitled ‘helping audit committees to be effective’ which expressed the need for oversight on risk management rather than line of site on the risks.
14. Taking account of the ToR, acknowledging the development of risk management over the past year, and reflecting on what is the most appropriate way for the Council to review risk a number of discussions have taken place on how best to move forward. After reviewing the position with the Governance and Legal Director, Chief of Internal Audit, Corporate Finance Director, Deputy Chief Executive and Cabinet Member for Resources and Corporate Support there was a clear consensus that:
- Responsibility for the oversight and assurance on risk management should be undertaken by the AGC. The focus should be on reviewing and approving the risk strategy along with updates by the Strategic Risk Business Partner on overall performance and future areas for risk improvement.
  - Responsibility for reviewing specific Corporate risks (updated via the Corporate Risk Heat Map and Corporate Risk Register) should be undertaken by Cabinet. These will be supplemented as required by more detailed risk deep dives – which will be particularly useful for those Cabinet Members where specific risks sit within their Portfolio.
  - Responsibility for the day-to-day operational management of risk continues with CLT (and Officers).

15. This revised approach remains consistent with the AGC Terms of Reference while ensuring the right information is provided to the most appropriate place.
16. On this basis, the intention is that the AGC will receive updates twice per year on the status of risk management and Cabinet Members will receive quarterly updates. CLT will continue to review Corporate risks on a monthly basis.
17. To ensure these governance changes are operating as envisaged the intention is to provide the Committee with feedback at the March 2023 AGC.

#### **Next Steps:**

18. The AGC will receive a risk update at the September meeting. This will include an overall assessment of how risk is performing in the organisation, a review of the Risk Management Strategy (it is one year since the Strategy was approved) and an update on progress around defining the organisations risk appetite.

#### **Conclusions:**

19. Risk management continues to be actively undertaken within Surrey County Council.

#### **Financial and value for money implications**

20. Improved decision making through risk management supports better allocation of resources and value for money.

#### **Equalities and Diversity Implications**

21. N/A

#### **Risk Management Implications**

22. Failure to implement effective risk management will reduce the quality of decision making within the Council. Moreover, the AGC will not be able to demonstrate that it is discharging its governance responsibility of having active risk management within the organisation.

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