

Audit Committee

24 March 2022



Title	Risk Appetite Framework
Purpose of the report	To make a decision
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All Corporate Priorities. Community Affordable housing Recovery Environment Service delivery
Recommendations	Committee is asked to: 1.Note the work in progress in developing a risk appetite framework for the Council. 2.Consider the next steps in progressing the effective implementation of a risk appetite framework for the Council.
Reason for Recommendation	Establishing and agreeing a risk appetite for key areas of Council operations can be applied to decision making and other areas of activity in delivering corporate priorities and objectives. Application of a risk appetite framework provides the following benefits: <ul style="list-style-type: none">- More effective decision making enabling greater transparency,accountability and consistency- Demonstrates proportionate action that aligns with the risk appetite set in responding to risks and opportunities.- Closer alignment between strategic direction and operational delivery

1. Summary of the report

- 1.1 This report seeks to inform the Audit Committee on progress in developing a risk appetite framework (RAF) for the Council and work undertaken so far. Next steps have also been reinforced for consideration.

- 1.2 Establishing and agreeing a risk appetite for key areas of Council operations to be applied to decision making and other activities including corporate and management processes supports the Council's Risk Management Policy, approved by the Audit Committee in 2020. It contributes to the longer-term vision of embedding a risk management culture and will further enhance organisational risk maturity. Having a RAF also meets modern best practice for risk management.

2. Key issues

- 2.1 At the Audit Committee meeting of 25 November 2021, Elizabeth Humphrey, an experienced Governance Consultant, presented to Members the rationale and benefits of implementing a Risk Appetite framework and talked through the concept with examples of how it could be applied with reference to decision making. Members of the Audit Committee were receptive to the concept and supportive of introducing a RAF for Spelthorne. It was agreed that progress be reported to the next meeting of the Audit Committee (March 2022).
- 2.2 Developing a Risk Appetite Framework (RAF) for Spelthorne is a work in progress and represents an important step in the Council's risk maturity. Essentially it is a tool that will guide how much risk (and opportunity) the Council is willing to seek and accept to enable consistent, transparent, and informed risk-based decisions in delivering corporate priorities and objectives. We have worked with Elizabeth Humphrey to explore and progress how this can be achieved.
- 2.3 The rationale and benefits of introducing a RAF were discussed with the executive management team (MAT) in September 2021 and raised with MAT PLUS (MAT and Group Heads) at a meeting early October. Group Heads and Managers were encouraged to input on the initial proposed format and structure and provide feedback on how they envisage a RAF working effectively in supporting their work.
- 2.4 The Deputy Chief Executive (Chief Finance and S151 Officer), Group Head Corporate Governance and Internal Audit Manager have undertaken an initial assessment to ascertain where Spelthorne's risk appetite currently sits against each of the impact measures ('as is' position) and the direction in which Spelthorne's risk appetite is envisaged to be moving over time ('to be' position). A refreshed version of the RAF with proposed appetites for Spelthorne was subsequently presented to MAT PLUS on 30 November (Appendix B to this report). We outlined how the different risk appetite levels (minimal/cautious/seeking/exploratory) might be articulated when applied to the proposed range of impact measures. During this session we also explained how such a framework can be applied with reference to a risk appetite pack (examples included decision making within Committee reports and Service Planning). The discussion document, proposed appetites for Spelthorne and risk appetite pack taken to MAT PLUS on 30 November are attached at Appendices A to D of this report.
- 2.5 Whilst Group Heads at MAT PLUS were supportive in principle to a RAF, their concerns were around overstretched corporate capacity and how applying a RAF might create additional work adding to existing pressures. The level of

additional value that might be gained from implementing a RAF has also been highlighted in the context of current workload demands. We have taken these comments on board and on reflection considered that a 'soft' implementation would be more appropriate. MAT have reinforced their support for a RAF but also welcome a soft implementation approach given the competing priorities, wider challenges and workload pressures being faced across the organisation. On this basis we have not accelerated implementation of a RAF as it is felt that familiarity of the concept on a more informal basis may be more appropriate in the first instance.

2.6 At some future point, once it has been determined where Spelthorne currently sees its' risk appetite relating to each of the impact measures i.e., the level of risk that Members have decided is acceptable for the Council, these can be formally set and approved. It was previously agreed at the Audit Committee meeting of 25 November that a collaborative approach (Officer and Member) in agreeing Spelthorne's risk appetite would be beneficial. As a starting point and to aid these discussions we have analysed where Spelthorne's risk appetite might currently sit versus the direction it may be moving towards over time (see earlier reference at para 2.4 and Appendix B to this report). Setting a risk appetite should not be viewed as rigid as there is flexibility to review and change it at reasonable intervals. This was highly recommended by Elizabeth Humphrey on the basis that as an organisation we will continue to evolve in facing new challenges and hence our risk appetite is likely to change over time.

2.7 Subsequent application of the risk appetite framework should help to demonstrate proportionate action that aligns with the risk appetite set in responding to strategic risks and opportunities. Other benefits of a RAF are referred to on the cover page of this report, as well as at Appendix 1. There are also wider benefits that can be gained from application of a RAF that have become apparent during the work undertaken so far such as using it to stimulate group thinking and as a capacity management tool.

3. Options analysis and proposal

3.1 Option 1 (Proposed) – Continue with a 'soft implementation' approach in progressing a RAF for Spelthorne. Continued familiarity with the concept and framework on a more informal basis (both Members and Officers) will maintain momentum and ensure we continue to build on the work already undertaken. The RAF could be trialled and applied to a corporate process to gain practical familiarity of the concept. One example is the service planning process with plans due for completion over the next two months.

3.2 Option 2 – In view of the overstretched corporate capacity and ongoing intense work pressures, do nothing at the current time to progress the formal adoption of a Risk Appetite Framework (RAF) for Spelthorne. The envisaged benefits from a RAF (once effectively implemented) highlighted on the cover page and elsewhere in this report (para's 1.2, 2.2, 2.7) could not be demonstrated or achieved if this option were taken.

4. Financial implications

4.1 There could be significant adverse financial consequences if Council decisions do not align with the Council's risk appetite for the 'financial' impact

measure. This may also apply where decisions are delayed with consequences for effectively delivering corporate priorities and objectives.

5. Other considerations

- 5.1 Whilst resources required to implement this will need to be contained within existing budgets, it should be recognised that this may impact other work priorities within the Internal Audit team. A soft and gradual implementation is envisaged to reduce the impact on Services.

6. Equality and Diversity

- 6.1 In progressing the implementation of a risk appetite framework and applying it over time across corporate processes, the Council should define what it sees as its risk appetite level when considering equality and diversity. This will help to determine and demonstrate proportionate action that aligns with the risk appetite set in responding to risks and opportunities.

7. Sustainability/Climate Change Implications

- 7.1 In the proposed RAF format 'delivery of corporate priorities' represents one of the defined impact measures against which risk appetites levels are articulated. This will help to determine and demonstrate proportionate action for Climate Change as a corporate priority area that aligns with the risk appetite set in responding to risks and opportunities.

8. Timetable for implementation

- 8.1 The timeframes for progressing implementation should be driven by the management team (MAT) and Audit Committee in the first instance, based on what is regarded to be the most opportune time. This should consider the challenges raised at para 2.5 around overstretched corporate capacity.

9. Contact

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Background papers: Please refer to Appendices below.

Appendices: Appendix A - Risk Appetite Framework Development – discussion document as reported to MAT + 30 November 2021

Appendix B – Risk Appetite Framework with proposed risk appetites – as reported to MAT + 30 November 2021 – (Annex 1 to Appendix A)

Appendix C – A template to consider risk appetite as part of service plans – as reported to MAT + 30 November 2021 (Annex 2 to Appendix A)

Appendix D - A template to include risk appetite in decision making reports – as reported to MAT + 30 November 2021 (Annex 3 to Appendix A)