

Committee	Dated:
Audit and Risk Management Committee	28 November 2017
Subject: Outturn of the Risk Appetite Survey 2017	Public
Report of: The Chamberlain	For Discussion
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Summary

The purpose of this report is to inform the Committee of the key findings of the recent online senior manager and member risk appetite survey.

The external risk management review was reported to both Summit Group and the Audit and Risk Management Committee in late 2016. One of its recommendations was *“The organisation should consider providing a clearly articulated statement on its risk appetite and tolerance to address the current general misconception that the organisation is risk averse and to positively guide and influence the personal predispositions to risk which are maintained by key internal stakeholders.”*

Zurich Municipal was engaged to work with the City Corporation to develop risk appetites base upon ten broad areas of risk. A key part of this project was to undertake an online senior manager (mandatory) survey. The Chairman of Grand Committees as well as members of the Audit and Risk Management Committee were also invited to participate in the survey. The survey asked for respondent’s perceptions of the levels of risk to which the City Corporation was currently exposed and the amount of risk the City Corporation should be willing to accept/ seek to achieve its strategic objectives.

The overall survey response rate was 77.4% (86% of senior managers and 53% of members). The key findings include:

- Overall there was remarkable similarity between the views of both members and officers in both current risk exposure and future risk appetite.
- Both members and officers scored future risk appetite (i.e. the level of risk that the City Corporation, on average, should be taking in the future) as lower than the current risk exposure on most risk categories.
- The exception was innovation where this was **above** current risk exposure.

The results of the Survey were reported to the Chief Officer Risk Management Group on 19 September 2017 and subsequently by the Summit Group on 27 September 2017. The Summit Group welcomed the findings and requested additional comparative information before determining next steps at their January 2018 meeting.

Recommendation: The report be noted.

Main Report

1.0 Background

- 1.1 The external risk management review was reported to both Summit Group and the Audit and Risk Management Committee in late 2016. One of its recommendations was *“The organisation should consider providing a clearly articulated statement on its risk appetite and tolerance to address the current general misconception that the organisation is risk averse and to positively guide and influence the personal predispositions to risk which are maintained by key internal stakeholders.”* This recommendation was included in the Risk Management Plan which flowed from this review.
- 1.2 The Summit Group, at their meeting on 28 July 2017, received an update report on the Plan. The report advised that Zurich Municipal (ZM) Risk Engineering consultancy had been commissioned to help the City Corporation understand and develop its risk appetite based upon many risk categories. This work included a mandatory senior manager on line survey (132 officers) which took place during August 2017. In addition, Chairman of Grand Committees and members of the Audit and Risk Management Committee (32 members - including co-opted members) were also invited to participate in the survey.
- 1.3 The survey asked for respondent’s perceptions of the levels of risk to which the City Corporation was currently exposed and the amount of risk the City Corporation should be willing to accept/ seek achieve its strategic objectives. Responses were required in respect of 10 broad risk category areas (see appendix 1 – key definitions, page 10). Respondents were also encouraged to support their assessments using examples or comments/issues.

2.0 Risk appetite survey results

- 2.1 The overall survey response rate was 77.4% (86% of senior managers and 53% of members). ZM have commented that this was a particularly high response rate compared to other surveys of this type they have conducted for clients.
- 2.2 ZM have provided a detailed analysis of the responses received from both senior managers and members. The detailed analysis includes a breakdown of results between corporate and service departments as well as by departmental management teams. However, the attached summary includes:
- a) An executive overview of the survey findings.
 - b) Two charts showing the average view (both officers and members) of the current risk exposure and future risk appetite across the ten categories of risk.
 - c) The placement of the City Corporation’s corporate risks on a risk appetite matrix (as of October 2017). This chart illustrates where these risks are in relation to future risk appetite levels both in terms of current and target scores. Five out of the 12 corporate risks would be below risk appetite if

they achieved their target scores.

2.3 **Key points from the survey (see charts in the Survey response section)**

- Overall there was remarkable similarity between the views of both members and officers in both current risk exposure and future risk tolerance.
- Both members and officers scored future risk appetite (i.e. the level of risk that the City Corporation, on average, should be taking in the future) as lower than the current risk exposure on most risk categories.
- The exception was the innovation category where this was **above** current risk exposure (but see 3 below).
- Benchmarking data supplied by ZM (based upon 4 local authorities) has been used to show that there are several risk categories where the City Corporation has a similar future risk tolerance perspective. The innovation category however is above the benchmarking data (i.e. that we are willing to take more risk than the benchmark).

The results of the Survey were considered by the Chief Officer Risk Management Group on 19 September 2017 and subsequently by the Summit Group on 27 September 2017. The Summit Group noted the findings and has requested additional comparative information before determining next steps at their January 2018 meeting.

3.0 **Key issues to be considered.** **Innovation**

3.1 The new (draft) corporate plan sets out the aims and ambitions of the City Corporation over the next few years. The survey has identified the amount of risk that the City Corporation is exposed to as well as the amount of risk it wishes to take in the future. The future risk appetite is **below** that of the current risk exposure which suggests that City Corporation is taking a higher level of risk in most risk areas than (on average) senior managers and members believe is appropriate. The only area where this was different was the innovation risk category.

3.2 Many respondents believed that the City Corporation is not an innovative organisation, its processes appear to slow down the decision making, and the importance of maintaining its reputation may hinder innovative decisions being made.

3.3 Whilst understanding the views registered by some respondents in the survey, Summit Group reviewed each of the risk appetite areas and considered that there were likely to be positive reasons why the City Corporation may be more risk averse than the local authorities in the benchmarking data. One example relates to the financial risk area - many local authorities have considerable financial pressures on them which may lead them to take decisions (to save public funds/provide services differently) with a higher degree of risk than would have previously been the case. This may not apply to the City Corporation to the same extent.

Member/Officer perceptions of risk appetite

3.4 The survey highlighted a close alignment of perceptions (members and officers)

on both current risk appetite and future risk appetite. One possible explanation for this alignment may be that officer risk perceptions have been led by members' risk averse perceptions making it less likely for officers to recommend decisions that may come with greater risks. There may also be an officer concern of blame if a new initiative/business activity does not perform as was anticipated.

Assessment of corporate/departmental risks against the proposed appetite

3.5 Appendix 1 includes a chart showing the position of the corporate risks, based upon their current risk scores, on the future risk appetite matrix (the shaded line). It also shows where these corporate risks would be on the risk appetite matrix if target risk scores were achieved. Subject to agreement by the Summit Group at their meeting in January 2018, the following steps are being proposed:

- a) request Chief Officers to review their corporate risks, in particular where, such risks (even after achieving their target scores) are **above** risk appetite. A decision will then need to be made to either implement further mitigations (to take the risk below appetite) or whether the risks will need to be recognised and accepted as being above appetite.
- b) adopt the same process as above in respect of all departmental level risks. This will provide an overall picture of which of the corporate and departmental level risks will remain above or below future appetite.
- c) agree to the stating of risk appetite levels for risks on risk register reports generated by the City Corporation's risk system.

4.0 Conclusion

4.1 This report highlights the key findings of the recent on-line risk appetite survey. This work was undertaken as a direct result of the external risk management survey recommendation in 2016. The on-line survey found that on most risk areas the City Corporation's future risk appetite was lower than its current risk exposure, except on the innovation category.

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