



Office for
National Statistics

Approach to Defining Risk Appetite

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Risk Appetite

- Multiple definitions of risk appetite exist

“The amount of risk that an organisation is prepared to accept, tolerate or be exposed to at any point in time.” - The Orange Book

“The amount and type of risk that an organisation is prepared to pursue or take”
– British Standards BS 31100

- Appetite should associate risk with the achievement of objectives
“The amount and type of risk that the Board is willing to accept in order to achieve its strategic priorities and deliver its intended outcomes.”

How can a Risk Appetite statement(s) be used:

- **By the Board to help develop/challenge strategic objectives and business priorities** – tests whether objectives are achievable by putting into context the risk required in order deliver them.
- **As part of the project approval process** – individual project approval should be taken in light of the organisation's entire portfolio of projects, its objectives and it's overall appetite for risk.
- **To contextualise individual risk assessments** – the existing risk process formalises the assessment of individual risks. A risk appetite statement(s) allows those assessments to be considered in light of the Board's overall desire to take risk.
- **To contextualise performance** – is strong performance driven by an unacceptable level of risk?

Presumptions Underlying the Approach

- Risk Appetite must be owned and seen to be owned by the Board.
- Recognition that risks are assessed qualitatively.
- Designed from the outset to inform the decision making processes throughout the organisation.
- Statements should be recognised by the business and aligned with the risk process.
- Consistent with the Board's strategy, objectives, values and stakeholder expectations.

Our Approach

- Development led by the Board & the Audit and Risk Assurance Committee.
- Appetite statements for categories of Strategic Risk – aligned with the Risk Management Policy and Framework – our appetite for risks of these types.
- Overview for Board members, homework and one-to-one discussions.
- Collective discussions with the Board.
- Risk appetite statements articulated as behaviours which the organisation can recognise.
- Define behaviours either side of agreed risk appetite.

Our Strategic Risks

Strategic Risk Theme		Description
Helpful		The risk of the Authority becoming irrelevant. This could come through a failure to keep pace with the needs of users, a failure to engage with decision makers, or the private sector providing increased competition. Are we willing to take risks in order to provide new products and services needed by customers?
Professional	Statistical Quality	ONS making a major error in a key statistical publication, the quality of statistics being called into question, or the Authority getting a regulatory intervention wrong. Are we willing to take risks to statistical quality, are there tight controls or a high level of devolved responsibility?
	Security	Data security failure, a breach of confidentiality or data loss leading to damage to public trust in our organisation. Are we willing to relax controls around information security in order to achieve outcomes?
Innovative		Failure to deliver the necessary transformation, particularly the delivery of our major programmes and projects (many of which will be in the digital sphere), failure to exploit our talent and stagnation of the organisation. Are we willing to take risks in order to innovate, to celebrate brave failures?
Efficient		The risk that requisite funding is not provided to the Authority or that the organisation is not able to meet a reducing baseline budget whilst continuing to develop and improve. Are we willing to take risks that would allow us to invest even with the potential for financial loss? Are we willing to take risks to generate income?
Capable	Systems	Risk related to the Authority's technological capability, whether the Authority's systems could cope with a digital model, whether our legacy systems are running at risk. Are we willing to run with systems that are at risk in order to focus investment on specific priorities?
	People	Risks relating to staffing capability and issues of retaining, recruiting and developing staff with the required skills. Are we willing to take risks in order to push the development of a workforce with higher skills, through more radical recruitment options and more direct interventions?

Approach for Board Members

- The next slides will walk through a process which is aimed at collecting your initial thoughts on risk appetite
- Once complete, your input will be collated with the other stakeholders and an aggregated set of results will be presented for first review.
- The next slide presents an example of how the final output might look. The current risk appetite is illustrated by the position of the box for each of the types of risk. **The behaviours outlined in the matrix are for illustrative purposes only.**

Format of Appetite statement(s)

	Averse	Minimal	Cautious	Open	Actively Seeking
	Avoidance of risk and uncertainty is a key organisational objective	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have potential for limited reward	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward and value for money	Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk)
Helpful			<ul style="list-style-type: none"> Tolerance for risk taking limited to those events where there is little chance of any significant repercussion for the Authority. 	<ul style="list-style-type: none"> Appetite to take decisions with potential to expose the Authority to additional scrutiny but only where appropriate steps have been taken to minimise any exposure. 	<ul style="list-style-type: none"> Appetite to take decisions that are likely to bring scrutiny of the Authority, but where potential benefits outweigh risks.
Professional			<ul style="list-style-type: none"> Moderate delay tolerated to individual projects/milestone in order to optimise management of a finite pool of resource and/or gain stakeholder approval 	<ul style="list-style-type: none"> Willing to accept minor delay to individual projects/milestones, but not at the expense of a major work area or deliverable. Willing to prioritise allocation of resource to ensure timely delivery. 	<ul style="list-style-type: none"> Unwilling to accept any delay in completing major work areas or project/milestone delivery Prepared to acquire additional resource to ensure delivery.
Innovative				<ul style="list-style-type: none"> Willing to explore creative and Innovative solutions in order to achieve desired outcomes. 	<ul style="list-style-type: none"> Encouraged to consider controversial solutions to drive market change.
Efficient	<ul style="list-style-type: none"> Avoidance of budget over-run is key objective Only willing to accept the low cost option. Resources withdrawn from non-essential activities. 	<ul style="list-style-type: none"> Only prepared to accept the possibility of very limited budget over-run if essential. Cost is the primary VFM consideration 	<ul style="list-style-type: none"> Prepared to accept the possibility of some limited budget over-run. Cost still the primary VFM concern but willing to also consider the benefits. Resources generally restricted to priorities and major work areas. 		
Capable		<ul style="list-style-type: none"> Decision making authority held by senior management. Only essential systems/ technology developments to protect current operations. Zero tolerance for H&S risks 	<ul style="list-style-type: none"> Decision making authority generally held by senior management. Systems / technology developments limited to protection of current operations. Prepared to accept minimal, well managed H&S risks to achieve outcomes. 	<ul style="list-style-type: none"> New systems / technology developments considered to enable operational delivery. Responsibility for decisions are devolved within agreed framework. Prepared to accept minimal, well managed H&S risks to achieve outcomes. 	

Approach continued

1. We have provided you with an A3 blank matrix to collect your views. With reference to the scale of risk appetite (Adverse, Minimal, Cautious, Open, Aggressive) and the description of risk types on slide 6, on the matrix please illustrate (by drawing a box) where you believe the Board's risk appetite should sit for each of the types of risk.
2. Having noted your view on risk appetite for each of the types of risk, with reference to the style and format on the sample matrix on slide 8, please could you describe the behaviours which you feel would be consistent with your view (descriptions on slide 9 are only an example, not suggestions).
3. Having noted the behaviours you propose to represent the Board's risk appetite, please could you outline the set of behaviours that sits either side of your view on risk appetite i.e. a more conservative set of behaviours and a more aggressive set of behaviours (again examples are on slide 8).
4. Your final output should look similar to the example on slide 10.

Approach – Stage 2

	Averse	Minimal	Cautious	Open	Actively Seeking
	Avoidance of risk and uncertainty is a key organisational objective	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have potential for limited reward	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward and value for money	Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk)
Helpful			Statement(s) below your recommended / preferred appetite	Your appetite statement(s) for this Strategic Risk	Statement(s) above your recommended / preferred appetite
Professional		Statement(s) below your recommended / preferred appetite	Your appetite statement(s) for this Strategic Risk	Statement(s) above your recommended / preferred appetite	
Innovative				Statement(s) below your recommended / preferred appetite	Your appetite statement(s) for this Strategic Risk
Efficient			Statement(s) below your recommended / preferred appetite	Your appetite statement(s) for this Strategic Risk	Statement(s) above your recommended / preferred appetite
Capable		Statement(s) below your recommended / preferred appetite	Your appetite statement(s) for this Strategic Risk	Statement(s) above your recommended / preferred appetite	

Next steps

- Board Members take away the appetite statement(s) template and complete prior to discussion at a follow-up one-to-one
- Following the one-to-one meetings, the Risk Management Team will collate all responses
- To be presented at the Authority Board in September or October 2015.