

Meeting: LSB Board
Date: 26 November 2019
Item: Paper (19) 60
Title: Risk Management at the LSB

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Status: Official

Executive summary

1. As part of our ongoing improvements to the way risk is managed by the LSB, we are revisiting our approach to expressing the Board's risk appetite.
2. In this session, the Board is being asked to discuss and agree its risk appetite across different categories of risk. To support this discussion, we have constructed the risk appetite matrix at **Annex A**
3. As this is the first time the new matrix has been used, we are also hoping to elicit more general refinements to the approach.
4. This paper also contains a related proposal to delegate to ARAC consideration of how the Board's expression of risk appetite has been applied to the risk register

Recommendation

5. The Board is asked to:
 - I. **Discuss and agree** the LSB's risk appetite across categories of risk areas set out in the matrix at **Annex A**
 - II. **agree** to delegate to ARAC consideration of changes to the risk register to reflect the Board's expression of risk appetite

Timing

6. If the Board agrees to delegate the scrutiny of the draft register to ARAC, an extraordinary ARAC meeting will be called before Christmas to ensure they are content with the approach taken and the content of the Register. The Register would then continue to be reviewed on a monthly basis at SLT with a full evaluation of the new methodology being presented to ARAC in March.

Discussion

7. A thorough review of the Risk Register and Risk Management Strategy was undertaken this year ahead of schedule for a number of reasons:
 - It is the first year for the new Chair of ARAC;
 - A desire on the part of SLT to better embed risk management in the business;
 - A new format is required, to assist with viewing on screens rather than on paper

8. One of the major changes we are proposing is to introduce a more structured process around risk appetite. Currently our use of risk appetite does not actively affect the way we manage our risks.

9. Risk appetite is the amount of risk in specified areas that an organisation is willing to take in order to meet its strategic objectives, or to tolerate to protect against key vulnerabilities, before action is necessary to reduce the risk. By defining its risk appetite, an organisation can arrive at an appropriate balance between uncontrolled precedents and excessive caution. Perhaps most importantly in terms of the Register, defined acceptable levels of risk also means that resources are not spent on further reducing risks that are already within appetite.

10. A clear expression of the Board's risk appetite should also help steer the Executive as it develops options for delivering the Board's strategic objectives.

Risk categories

11. The matrix at Annex A sets out a series of risk categories. Those categories should be seen as broad types of risk, not risks arising from, or attributed to, specific functional teams (e.g. "financial risks" are not necessarily the same as "risks associated with the finance team").

12. The risk categories are as follows:
 - Legal
 - Financial
 - People
 - Policy
 - Governance
 - Relationships

13. These key elements are mapped against standard levels of risk appetite:
 - Avoid

- Minimal
- Cautious
- Open
- Seeking

14. For each category and level, we have attempted to populate the matrix with relevant descriptors.

15. As part of the exercise, we have asked Board members in advance to provide their individual assessment of appetite within the risk categories. The Board meeting will provide an opportunity to discuss, calibrate and agree a common position.

Next steps

16. The Board's risk appetite will be reflected in the risk register. If the Board agrees to delegate consideration of the changes to ARAC, we will circulate the new risk register to ARAC in correspondence.

17. Operationally, the expression of risk appetite will be used to determine, for each risk on the register whether we are above, below, or within the agreed risk appetite, prompting appropriate adjustment of mitigations. Those risks within appetite would be monitored for change but those outside or on the risk appetite threshold would be actively managed until the residual score is within acceptable limits.

18. At the March 2020 ARAC meeting, we intend to provide an evaluation of the relative success of the new style of register and how the new processes are affecting risk management in the organisation as a whole.

Recommendation

19. The Board is asked to:

- III. **Discuss and agree** the LSB's risk appetite across categories of risk areas set out in the matrix at **Annex A**
- IV. **agree** to delegate to ARAC consideration of changes to the risk register to reflect the Board's expression of risk appetite

Risks and mitigations	
Financial:	N/A
Legal:	N/A
Reputational:	N/A
Resource:	N/A

Freedom of Information Act 2000 (Fol)
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Fol exemption and summary	Expires
None	N/A / Date

Annexes

Annex A: Risk appetite matrix