

# LODDON SHIRE COUNCIL

## RISK APPETITE STATEMENT



LODDON  
SHIRE

# DOCUMENT INFORMATION

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Risk Appetite Statement  
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ISO 31000:2018 Risk Management Guidelines  
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**This document is available in alternative formats (e.g. larger font) if requested.**

# CONTENTS

1	PURPOSE .....	1
2	SCOPE .....	1
3	BUDGET IMPLICATIONS .....	1
4	RISK ANALYSIS.....	1
5	INTRODUCTION .....	1
6	RISK APPETITE FRAMEWORK .....	3
7	RISK APPETITE STATEMENT .....	3
	7.1 Legislative context.....	3
	7.2 Risk Appetite Statement.....	4
8	RISK APPETITE STATEMENTS BY RISK TYPE .....	5
9	REVIEW .....	7
	APPENDIX 1: RISK APPETITE STATEMENT SUMMARY .....	8

## 1 PURPOSE

The Risk Appetite Statement has been developed to document the amount of risk Council is willing to take in achieving its strategic objectives. The document will guide Council decision making and provide management with guidance around Council's appetite for risk which will give management the freedom to operate within Council's parameters.

It is one of the key risk management documents within Loddon Shire Council's risk management system; the others include a Risk Management Policy, Risk Management Framework, Risk Management Procedure and Risk Management Implementation Plan. It has been developed in line with *ISO 31000:2018*, the International Standard for risk management, which applies a best practice approach. The documents articulate:

- Council's commitment to managing risk
- the objectives of the risk management system
- roles and responsibilities in risk management within the organisation
- a plan to increase the focus on risk management and ensure that Council's governance framework provides risk reporting to the appropriate audiences.

## 2 SCOPE

This policy applies to the Councillors and employees (including full time, part time and casual, agency staff and students). The policy is also applied in the management of contractors, volunteer groups and consultants of Council. The Audit and Risk Committee is a key stakeholder of this document.

## 3 BUDGET IMPLICATIONS

It is not anticipated that additional budget will be required to implement the actions in this plan.

## 4 RISK ANALYSIS

The introduction of a Risk Appetite Statement into Council's suite of documents helps to minimise a disconnect between the risk that Council is willing to take in achieving its strategic objectives and the actions that management takes in delivering them.

## 5 INTRODUCTION

"Risk appetite is the amount of risk you are willing to take in pursuit of your strategic objectives. Defining risk appetite establishes boundaries for prudent decision making and risk taking."<sup>1</sup>

This is the first time Council has documented a Risk Appetite Statement, and it is timely, given the Council Plan 2021-2025 is reasonably new, and will be in effect until 30 June 2025.

"The risk appetite may consist of high-level statements in only one or two paragraphs that in turn drive a more detailed listing of risk tolerances. The two parts work together and in their entirety constitute the risk appetite statement. In documenting the risk appetite statement, organisations should consider that:

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<sup>1</sup> Risk-appetite-overview---iia-presentation.pdf, EY, Data unknown

Risk appetite is:

- strategic, aspirational and directly related to the achievement of business objectives
- part of whole-of-organisation governance
- the broad pursuit of risk

while risk tolerance:

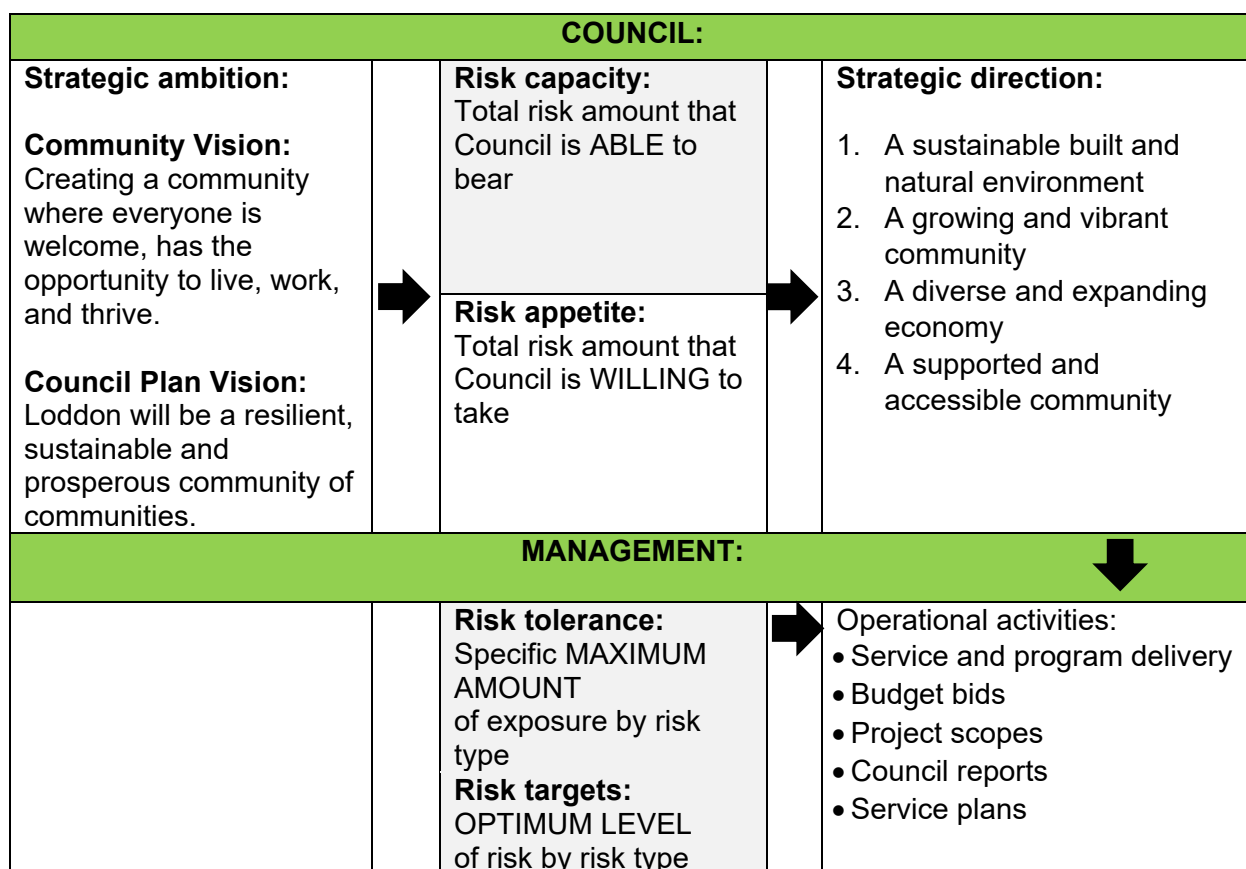
- is tactical and operational
- enables an organisation to control its appetite for risk in line with organisational, strategic objectives
- is the level of risk that can be borne in the context of specific transactions or activities.”<sup>2</sup>

It is important that the risk appetite is approved by Council as it is the formally accepted “degree of risk that the Council is prepared to accept in pursuit of its strategic objectives”<sup>3</sup>. It is also important that the Audit and Risk Committee has influence over the document, and endorses it for Council’s approval, given its legislated functions and responsibilities relating to risk management in Council.

The Risk Appetite Statement provides management with guidance on the level of risk permitted and the boundaries under which it must operate, while encouraging a consistent approach across the organisation.

“A well-articulated risk appetite statement provides a baseline for comparing risk ratings calculated on a risk register, with the tolerance for risk in that category, to determine what controls or actions are required to bring individual risks within the organisation’s risk appetite.”<sup>4</sup>

In terms of the strategic context, the following diagram shows where risk appetite (and its supporting terms) fits within Council:



<sup>2</sup> Governance Institute of Australia, *Good Governance Guide: Risk appetite statement*, 2019, p1-2

<sup>3</sup> Protecht, *Risk Management Presentation*, July 2019

<sup>4</sup> Governance Institute of Australia, *Good Governance Guide: Risk appetite statement*, 2019, p2

As this is the first Risk Appetite Statement for Council, risk capacity, risk tolerance and risk targets will not be addressed. They will be developed over time as the concept becomes embedded into practice, and knowledge grows around risk management.

## 6 RISK APPETITE FRAMEWORK

A traffic light system has been applied to identify the level of risk the Council is willing to accept for each risk type, as follows:

Very high appetite	High appetite	Moderate appetite	Low appetite	No appetite
<b>Strategic objective – negative impact balance <sup>5</sup></b>				
Council is willing to accept a negative impact in order to pursue strategic objective	Council is willing to accept some negative impact in order to pursue strategic objective	Council is willing to accept potential negative impact for pursuit of strategic objective, given equal considerations	Council is only willing to accept a small negative impact in order to pursue strategic objective	Council is not willing to accept any negative impact in order to pursue strategic objective
<b>Risk – reward balance <sup>6</sup></b>				
Council is willing to accept a very high level of risk, justified by potential reward	Council is willing to accept some risk to justify potential reward	Council takes a balanced approach to risk taking to pursue potential reward	Council takes a cautious approach to risk taking to pursue potential reward	Council takes as little risk as possible to pursue potential reward

## 7 RISK APPETITE STATEMENT

### 7.1 Legislative context

There are Local Government Act 2020 requirements for Council in governing the Loddon Shire, which are outlined in the Overarching Governance Principles (Section 9 of the Act), as follows:

- (1) *A Council must in the performance of its role give effect to the overarching governance principles.*
- (2) *The following are the overarching governance principles—*
  - (a) *Council decisions are to be made and actions taken in accordance with the relevant law;*
  - (b) *priority is to be given to achieving the best outcomes for the municipal community, including future generations;*
  - (c) *the economic, social and environmental sustainability of the municipal district, including mitigation and planning for climate change risks, is to be promoted;*
  - (d) *the municipal community is to be engaged in strategic planning and strategic decision making;*
  - (e) *innovation and continuous improvement is to be pursued;*
  - (f) *collaboration with other Councils and Governments and statutory bodies is to be sought;*

<sup>5</sup> <https://deloitte.wsj.com/riskandcompliance/2017/05/25/five-steps-to-developing-a-comprehensive-risk-appetite-framework/>, Accessed 20 April 2020

<sup>6</sup> <https://deloitte.wsj.com/riskandcompliance/2017/05/25/five-steps-to-developing-a-comprehensive-risk-appetite-framework/>, Accessed 20 April 2020

- (g) the ongoing financial viability of the Council is to be ensured;*
- (h) regional, state and national plans and policies are to be taken into account in strategic planning and decision making;*
- (i) the transparency of Council decisions, actions and information is to be ensured.*

## **7.2 Risk Appetite Statement**

The overarching governance principles have been referenced in determining an overarching Risk Appetite Statement to capture the holistic approach to risk. This statement will be supported by individual risk appetite statements associated with the various risk types so it is clear to all stakeholders the risk level that Council is willing to take.

Council's overarching Risk Appetite Statement is:

*In creating a community where "everyone is welcome and has the opportunity to live, work and thrive", Council will explore opportunities associated with collaboration, particularly in leveraging national, state, and regional strategic opportunities that plan for the whole region.*

*To ensure we are operating most effectively, we will implement continuous improvement initiatives and explore innovative activities in seeking to provide positive economic and social outcomes for our communities, while protecting our environment and managing the impacts of climate change.*

*We will manage our financial position for long-term sustainability, and promote our reputation through transparent and open transactions with our communities, government, staff, and other stakeholders.*

*We will protect the information we collect and hold, and uphold our requirement to operate within a regulated environment. We do not accept behaviours around fraud and corruption, or unsafe activities that can harm our people.*

## 8 RISK APPETITE STATEMENTS BY RISK TYPE

To support Council's overarching Risk Appetite Statement, the following specific statements have been developed that identify more specifically Council's risk appetite around the different risk types. They should assist management when assessing Council's risk appetite when developing budget bids, project scopes, etc.

Ordinarily, the strategic link would be embedded in this table; however, the strategic links (identified in the Council Plan 2021-2025) are inherent across all of the risk types.

Appetite	Appetite by risk type	Risk appetite details
No appetite	Health and safety	<p>Council has <b>no appetite</b> for practices or behaviours that may lead to our staff, volunteers, contractors, property owners, customers or community members being harmed while interacting with us.</p> <p>Council has <b>no appetite</b> for non-compliance with accepted occupational health and safety practices that may lead to staff being harmed while at work.</p> <p>Council aims to create a safe environment where people are protected from physical or psychological harm, and has safety systems and processes to promote positive health and wellbeing outcomes.</p>
No appetite	Fraud and corruption	<p>Council has <b>no appetite</b> for fraud and corruption perpetrated by Councillors, staff, volunteers, contractors or suppliers, and will respond to allegations of fraud and corruption with an appropriate response.</p> <p>Council will promote an ethical environment through the Fraud and Corruption Prevention Policy and Fraud and Corruption Control Plan that outlines actions to prevent, detect, and respond to fraud and corruption activities.</p>
Low appetite	Compliance risk	<p>Council has a <b>low appetite</b> for non-compliance with regulatory and other obligations.</p> <p>Council is committed to a high level of compliance with relevant legislation, regulation, industry codes and standards and has <b>no appetite</b> for deliberate violation of laws or regulatory requirements.</p> <p>Minor breaches are expected from time to time, but it is expected they will be reported to the Audit and Risk Committee and responded to by management.</p> <p>Council will seek to mitigate compliance risks through adherence to internal policies and good corporate governance.</p>
Low appetite	Reputation	<p>Council has a <b>low appetite</b> for the actions of internal or external parties that compromise our credibility with our community, staff, government at all levels, and other stakeholders.</p> <p>Council will seek to be transparent in decision-making and provide clear communication in order to mitigate this risk.</p>
Low appetite	Information security	<p>Council has a <b>low appetite</b> for loss or misuse of the information it holds, or inability to access core operating systems.</p>



Appetite	Appetite by risk type	Risk appetite details
		<p>Council collects and produces personal, commercial, and sensitive information from staff, property owners, the community, suppliers, and customers, and understands the reputational risks and privacy obligations that accompany the collection, use, disclosure, storage and transfer of such information.</p> <p>Council provides a secure environment for this information and places a high standard on protecting physical and electronic information. Council has implemented security protocols that are designed to protect the information it collects and holds, and the operating systems used throughout the organisation</p>
Moderate appetite	Financial	<p>Council has a <b>moderate appetite</b> for risks associated with ongoing financial sustainability.</p> <p>Council plans for long-term sustainability through the ten-year Financial Plan and Annual Budget, and has implemented financial management policies to ensure that the financial position is managed to an acceptable level.</p> <p>Council acknowledges that opportunities will arise outside of long-term plans, and will explore the merits of those opportunities when they occur.</p>
High appetite	Economic and social sustainability	<p>Council has a <b>high appetite</b> for pursuing activities that promote economic and social sustainability of our communities.</p> <p>Council understands the strength of our communities is through social connections and economic success of our businesses and conducts activities and implements services and programs to support the community.</p>
High appetite	Environmental sustainability	<p>Council has a <b>high appetite</b> for pursuing activities that protect the environment and address climate change risk.</p> <p>Council acknowledges its legislative requirement to plan for and mitigate climate change risks, and considers these impacts through the asset management plans developed for our major infrastructure asset classes.</p> <p>Council acknowledges our natural environment is important to our Shire's success and participates in regional groups to promote environmental assets.</p>
Very high appetite	Continuous improvement and innovation	<p>Council has a <b>very high appetite</b> for continuous improvement, innovative practices, and exploring what new technologies, services and products can offer our organisation in driving efficiency and improved customer experience.</p> <p>Council acknowledges that not all innovative ideas will be successful, and is willing to accept this.</p>
Very high appetite	Shared services, joint ventures, and strategic partnerships	<p>Council has a <b>very high appetite</b> for opportunities to participate in joint ventures and strategic partnerships that support efficiencies in current services and support additional services and programs for the benefit of the community.</p> <p>Council is involved in strategic partnerships across the region at local government and state government level.</p>

## 9 REVIEW

The Risk Appetite Statement will be reviewed annually to progress Council's risk management maturity. At an appropriate time, the review will include the addition of risk tolerance, risk capacity, and risk targets, in addition to confirming Council's current risk ratings are still relevant.

# APPENDIX 1: RISK APPETITE STATEMENT SUMMARY

The following summary has been developed as a resource for management to refer to when assessing programs, services, and projects around Council's risk appetite.

Very high appetite	High appetite	Moderate appetite	Low appetite	No appetite
<b>Strategic objective – negative impact balance <sup>7</sup></b>				
Council is willing to accept a negative impact in order to pursue strategic objective	Council is willing to accept some negative impact in order to pursue strategic objective	Council is willing to accept potential negative impact for pursuit of strategic objective, given equal considerations	Council is only willing to accept a small negative impact in order to pursue strategic objective	Council is not willing to accept any negative impact in order to pursue strategic objective
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<sup>7</sup> <https://deloitte.wsj.com/riskandcompliance/2017/05/25/five-steps-to-developing-a-comprehensive-risk-appetite-framework/>, Accessed 20 April 2020

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