

Risk Appetite Statement 2025/26

1. Definition

- 1.1 The Good Governance Institute (GGI) defines risk appetite as 'the amount and type of risk that an organisation is prepared to pursue, retain or take in pursuit of its strategic objectives, is key to achieving effective risk management. It represents a balance between the potential benefits of innovation and the threats that change inevitably brings, and therefore should be at the heart of an organisation's risk management strategy.'

Good Governance Institute: Board guidance on risk appetite, 2020¹.

2. Risk appetite levels

- 2.1 NHS North East and North Cumbria Integrated Care Board (the ICB) accepts there will always be an element of risk in the pursuit of its aims and objectives. It has determined, and will continuously assess, the nature and extent of the risks that the organisation is exposed to and is willing to take (its risk appetite) to achieve its objectives and ensure that planning and decision-making reflects this assessment.
- 2.2 Risk tolerance reflects the boundaries within which the executive team is willing to allow the day-to-day risk profile of the organisation to fluctuate while they are executing strategic objectives in accordance with the agreed risk appetite, in other words the residual risk. The Board has set specific limits (risk ratings) for the levels of risk that the organisation is able to tolerate. In setting these, risk factors in both the external and internal business environments have been considered.
- 2.3 The ICB has applied the following risk appetite levels which are based on the UK Government's The Orange Book, Management of Risk – Principles and Concepts² and its supporting Risk Appetite Guidance Note, 2021³:

Appetite level	Definition
Averse	All precautions and mitigations in place with very low appetite for risk (likelihood of risk is rare but not impossible).
Cautious	Preference for safe delivery options that have a low degree of inherent risk, and which may only have limited potential for reward.
Balanced	Accepting that there is a degree of risk in activities and prepared to put resource in place to monitor and mitigate risks where the benefits of the activities outweigh the risk.
Open	Receptive to activities which carry a degree of risk where these will result in successful delivery and measurable improvements while also providing value for money.

¹ [Board guidance on risk appetite | Good Governance \(good-governance.org.uk\)](https://www.good-governance.org.uk/governance/boards/governance-guidance/2020/06/2020-board-guidance-on-risk-appetite/)

² [The Orange Book – Management of Risk – Principles and Concepts \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/90441/the-orange-book-management-of-risk-principles-and-concepts.pdf)

³ [20210805 - Risk Appetite Guidance Note v2.0.pdf](https://www.nhs.uk/consult/20210805-risk-appetite-guidance-note-v2.0.pdf)

- 2.4 The appetite level informs the target or acceptable level of risk to the organisation. Where risks cannot reasonably be avoided, every effort will be made to mitigate the remaining risk to the lowest possible level that is reasonably practicable.
- 2.5 As a minimum, the ICB will aim to operate organisational activities at the defined levels. Where activities are projected to exceed the defined levels, these will be addressed through appropriate governance mechanisms and a decision made whether to halt the activities or identify additional resources required to manage the risk to an acceptable level.
- 2.6 The risk levels for each category of risk have been defined through the context of existing organisational risks, issues, and consequences and are as follows:
- **Finance:** We have adopted a cautious stance for financial risks, seeking safe delivery options with little residual risk that only yield some upside opportunities.
 - **Information sharing:** Where the lawful sharing of information is necessary to perform key functions and facilitate appropriate partnership working, we have adopted a balanced stance to risks that might arise from information sharing.
 - **Information security:** We have adopted an averse stance to risks that could lead to the wrongful disclosure of information whether through human error, malice or as the result of cyber threats.
 - **Legal and regulatory compliance:** We have adopted a cautious stance for compliance, seeking a preference for adhering to responsibilities, and safe delivery options with little residual risk.
 - **Partnership working:** We have adopted an open stance to risks with partnership working which is essential to delivering improvements in health improvements and outcomes of our patients and public.
 - **Patient safety and quality of commissioned services:** We have adopted an averse stance to risks which compromise patient safety and quality in the services that we commission.
 - **People and workforce development:** We have adopted an open appetite to invest in our people and their development where it supports the organisational aims and strategy.
 - **Reputational risks:** We have adopted a cautious stance for reputational risks, with a preference for safer delivery options, tolerating a cautious degree of residual risk whilst choosing the option most likely to result in successful delivery of high quality, cost-effective services to the public.
 - **Research and innovation:** We have adopted an open stance for innovation risks that will result in improvements to health and to health and

care services The Board accepts that there will be a degree of risk when introducing new systems, processes and ways of working however where these and is receptive to these activities.

- **Security and health and safety:** We have adopted an **averse** stance for risks which may compromise our people's safety and wellbeing or potentially cause loss, harm or reputational damage to the physical and technical infrastructure and assets, or use of technology within the organisation.

3. **Risk appetite guidance**

3.1 Introduction

3.1.1 The ICB has four levels of appetite: averse, cautious, balanced and open and the appetite statement sets the level of a range of ten risk categories. The table below sets out the appetite level in terms of the acceptable risk score.

Category	Appetite level	Tolerance i.e. within appetite	Approaching appetite	Out of appetite
<ul style="list-style-type: none"> • Patient safety • Information security • Security/H&S 	Averse	1 - 5	6 - 9	10 & above
<ul style="list-style-type: none"> • Finance • Legal and regulatory • Reputation 	Cautious	1 - 6	8 - 12	15 & above
<ul style="list-style-type: none"> • Information sharing 	Balanced	1 - 9	10 - 15	16 & above
<ul style="list-style-type: none"> • Partnership working • Innovation • Workforce development 	Open	1 - 12	15 - 16	20 & above

3.1.2 The tables on the following page show the four appetite levels in relation to the standard risk assessment matrix:

Appetite levels in relation to the standard risk assessment matrix

Key	Within appetite	Approaching appetite	Out of appetite
-----	-----------------	----------------------	-----------------

Averse

Consequence	Likelihood					
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
	5 Very high	5	10	15	20	25
	4 High	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Low	2	4	6	8	10
	1 Very low	1	2	3	4	5

Cautious

Consequence	Likelihood					
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
	5 Very high	5	10	15	20	25
	4 High	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Low	2	4	6	8	10
	1 Very low	1	2	3	4	5

Balanced

Consequence	Likelihood					
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
	5 Very high	5	10	15	20	25
	4 High	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Low	2	4	6	8	10
	1 Very low	1	2	3	4	5

Open

Consequence	Likelihood					
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain
	5 Very high	5	10	15	20	25
	4 High	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Low	2	4	6	8	10
	1 Very low	1	2	3	4	5

4. Replacing "Target Risk" category with risk appetite descriptor

4.1 Currently the corporate risk register describes three levels of risk:

- Initial risk rating – the risk consequence and likelihood without any controls or assurances applied
- Residual risk rating - the risk consequence and likelihood score with identified controls and assurances in place
- Target risk score – this is the target likelihood and consequence score that the risk can/should be managed towards.

4.2 Currently risk owners are asked to select their own target risk scores when adding a new or updating an existing risk. The governance team are exploring whether it would be possible to replace the target risk score with a column on the risk register which instead describes whether the residual risk (with all identified controls and assurances in place) is within, approaching or outside of the agreed Board approved risk appetite levels for each category of risk (as described earlier).

4.3 This would result in the risk registers having two scores only, with the target risk score replaced with a descriptor of whether the residual score is within, approaching or outside of appetite:

- Initial risk rating – the risk consequence and likelihood without any controls or assurances applied
- Residual risk rating - the risk consequence and likelihood score with identified controls and assurances in place
- Risk appetite position – describes whether the residual risk score is within; approaching; or, outside of agreed risk appetite levels.

4.4 Where a residual risk score falls outside of (or approaching) agreed risk appetite levels, risk owners will be prompted to include actions within the risk register to bring the risk towards agreed risk appetite levels for the risk.

4.5 Where a residual risk score is scored within agreed risk appetite levels, the risk owner can continue to monitor the risk situation and no additional actions, controls or assurances are required to be implemented (although additional actions/controls can be identified to reduce the risk further). Where the risk has been maintained within agreed risk appetite levels for some time, the risk can be considered for closure.

4.6 With the current target risk scoring arrangement, risk owners could suggest/agree scores that fall outside of the agreed risk appetite levels (although this would be highlighted at risk reviews to check whether the target risk remained appropriate). If we move to a system where target risk is replaced with a column which describes whether the risk falls within, approaching or outside of Board approved appetite levels, it will help to bring all risks within agreed appetite levels and removes some of the variation within how the current target risk scores have been applied.

5. Risk management system development

5.1 An additional field has been added to the risk form within the ICB's risk management system (SIRMS) to capture the appetite category and this can be used alongside the current residual score to determine whether the risk is within, approaching or outside of appetite.

5.2 In the example below, the risk category is 'Information Security' and the appetite for this risk is 'averse':

Risk	Controls	Actions	Residual Risk	Target	Reviews	Status	Attachments	Linked
Consequence x Likelihood (Residual)		3 Moderate		2 Unlikely		?		
Residual risk rating		1 Low (Green)						
Residual score		6						
Risk appetite category		Information Security_Averse						

5.3 As the risk has a current residual score of 6 G (low) the risk is approaching appetite. In the following example, the category is 'Reputational' for which the appetite is cautious:

Risk	Controls	Actions	Residual Risk	Target	Reviews	Status	Attachments	Linked
Consequence x Likelihood (Residual)		4 Major		4 Likely		?		
Residual risk rating		3 High (Amber)						
Residual score		16						
Risk appetite category		Reputational_Cautious						

5.4 With a residual score of 16 A (high) the risk is outside of appetite and risk management efforts should be directed at bringing the risk within appetite levels.

5.5 Removal of the target risk score and inclusion of a risk appetite descriptor column within the corporate risk register will require further development within the risk management system (SIRMS).

5.6 The ICB governance team are working with NECS to understand the development requirements within SIRMS to enable the necessary changes to facilitate the changes to the risk register required.

Report Author: N Hawkins, Strategic Head of Corporate Governance

Date: June 2025