

# Title: Corporate Plan 2022-2026 – Future Risk Appetite

**Date: 16March 2022**

| **Purpose:** | Decision |
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| **How does this link with our corporate priorities of improving biodiversity or delivering nature-based solutions to climate change** | This is the final stage in the development of the Corporate Plan; to identify and develop a risk appetite statement that reflects the organisation’s approach to risk in strategic decision making.A more specific statement on the organisation’s appetite to risk will be used to inform and support strategic-related decisions during the life of the corporate plan. |
| **Summary:** | Confirming a new risk appetite will facilitate communications with colleagues across the organisation, increasing their empowerment in decision making with the confirmed risk appetite in mind. |
| **Actions:** | Board are asked to confirm NatureScot’s new risk appetite as aligned to ‘A Nature Rich Future’ |
| **Recommendations:** | Board are asked to:* **Discuss and agree a new risk appetite for the 2022-2026 Corporate Plan**
* **Confirm whether one risk appetite level should be set for each category**
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| **Appendices:** | Annex A – Risk Categories and Risk StatementsAnnex B - NatureScot Risk Appetite Table and description of each level of Risk Appetite |

## Purpose

1. This paper seeks to review our strategic risk appetite so that it can be used to aid and inform current and future strategic-related decisions aligned to delivery of our Corporate Plan. It will be promoted across the organisation for wider understanding of the organisation’s appetite to risk and to improve the organisation’s risk culture.

## Background

1. As part of the development of the new Corporate Plan, we are reviewing the organisation’s risk appetite i.e. how much risk are we willing to take (or accept) to deliver our objectives.
2. To do this we have considered; firstly, the organisation’s risk maturity, which identifies weaker areas of risk management in the organisation such as cultural adoption and secondly feedback from staff on what they felt was the organisation’s approach to risk at our risk appetite workshops.
3. There is historically a perception that NatureScot is an inherently risk adverse organisation although there’s good examples of where we have been prepared to take risks such as Green Infrastructure Strategic Investment and Peatland Action. One weakness perhaps is that we need to enhance the organisations understanding of risk appetite and help colleagues to feel supported and therefore more open to taking risk.

## When to take risks

1. When faced with strategic decisions we need to consider both the benefits to be achieved and the associated risks. Decisions however are often taken on the basis of avoiding or minimising loss so there’s a tendency to be more influenced by potential losses than potential gains.
2. There’s some evidence that people who look to work in the public sector are more risk adverse than those in the private sector – and this perhaps reflects the risk culture of the organisation. We need to recognise however that there’s differences in approach to risk taking across the public sector e.g. the approach to risk in social services or the NHS compared with the Armed Forces, however, there’s perhaps good reasons why we can’t or shouldn’t have the same level of risk appetite than the private sector given that we are publically funded.
3. We also need to consider the environment in which we operate in the public sector and the culture of the organisation that develops from this. Taking risks however needs to consider our capability and capacity to manage them e.g. what resources we have, what skills we possess, what type of knowledge and expertise we have or how robust our reputation and brand is.

## Setting Risk Appetite

1. Identifying the appropriate appetite for a risk category requires us to consider our capacity and capability to deal with the risks we might be exposed to. For NatureScot we should therefore take into consideration elements such as:
* Whether we have a sufficient risk management process in place to help us identify and manage current and future risks?
* Whether our position as a Non Departmental Public Body (NDPB) provides us with sufficient independence and impartiality to take decisions and a stand on particular issues?
* Whether our current and future resources are likely to be sufficient to manage the risks we may wish to take in strategic decisions?
* Whether we have sufficient skills, knowledge and expertise in the organisation to manage risks we may wish to take in strategic decisions?
* Whether we are sufficiently flexible as an organisation to be able to react to emerging risks and issues e.g. can we re-deploy staff swiftly to where they might need to be, do we empower decision making at the appropriate level?
* Whether we have the ability to withstand and react appropriately to potential adverse scrutiny or criticism from stakeholders and those we’re responsible to from the strategic decisions and actions we may wish to take?
1. Annex A sets out our current [Risk Categories and the risk statements](#_Annex_A_-) that support them. Risk categories are the classification of risks aligned to the business areas of the organisation. These are:
* **Nature** – actions to protect, restore and build value in nature
* **Compliance** – laws, regulations, governance requirements
* **Operational**  - operating structure, processes, delivery model
* **Reputation** – as a result of our policies, decisions or actions
* **Resources** - how we utilise our financial & staff resources
1. Risk statements are then applied to these categories and reflect our current risk appetite. The risk statements in Annex A were agreed during our last Corporate Plan period. In order to determine whether these statements are still fit for purpose and whether to change our risk appetite in these areas we must as ourselves the following questions:
* What barriers are there to us taking more risks?
* Does the environment in which we operate allow us to take more risks?
* What are our strengths to allow us to take more risks?
1. In advance of Board review, SLT provided some feedback on the risk categories specifically Nature which has been edited to include the restoration as well as protection. We may however need to split Nature into Protection and Restoration. This reflects recent dialogue with the Minister around a hungry risk appetite for ambitious nature restoration and a cautious risk appetite towards any interventions that may further deteriorate the already perilous state of nature. In the event of changes to the risk appetite for a category, the risk statement narrative will be updated.
2. Annex B is the [NatureScot Risk Appetite Table and the description of each level of Risk Appetite](#_Annex_B_–). When setting risk appetite levels we need to consider the impact of the risk. The ranges cover:
* **‘Comfortable’** - where the level of risk does not pose a major threat as long as it is managed sensible.
* **‘Manageable’** – where the level of risk will need careful management but considered worth taking
* **‘Dangerous’** – where it is highly unlikely that we would be willing to take such a level of risk
1. The ‘manageable’ zone will be dependent on the views of the Board. If there is a collective agreement then this might only cover one level of risk appetite but if the views encompass a range then there may be agreement for the ‘manageable’ zone to straddle two levels.
2. Although the manageable zone can straddle two levels, it is recommended than agreement should be reached on one level of risk appetite per category. This provides a stronger steer for colleagues on the approach when taking risks in their day to day work.

## Recommendations

1. Board are asked to:
* **Discuss and agree a new risk appetite for the 2022-2026 Corporate Plan**
* **Confirm whether one risk appetite level should be set for each category**

### **Annex A - Categories of Risk and Risk Statements**

**Nature**

*As the body responsible for the protection of the natural heritage and to promote its understanding and sustainable use we shall continue to pursue policies, take decisions and undertake actions that protect, restore and value nature. However, we shall also take account of our ‘balancing duties’ and acknowledge the range of stakeholder interests. With the uncertainty in the natural world, especially in the face of climate change, there may be risks from proposed activities that may negatively impact on nature. We shall take a precautionary approach and take decisions and advise accordingly to ensure sufficient safeguards are in place.*

**Compliance**

*We will comply with the high standards of corporate governance expected of a public body and ensure that all our activities are carried out in accordance within the regulatory parameters set****.*** *We shall also ensure that we follow all related legislation associated with our activities. Only a very limited tolerance will be taken towards any discretion over the interpretation of our compliance requirements. These would only be taken with prior consultation and approval at the relevant level of authority.*

**Operational**

*We encourage innovation and creativity in order to maximise our impact from investing in Scotland’s nature, and providing more benefits for more people, including through preventative spend. We shall also actively look for opportunities where these exist to take on new roles that help deliver our outcomes and improve our services. When delivering funds with or on behalf of others we will* *acknowledge the risk of some de-commitment losses provided they are proportionate to the scale of funds being managed.*

**Resources**

*We recognise that public finances will continue to remain under significant pressure. We will therefore ensure that we are proficient in the decisions we take on the use and deployment of our resources to maximise the public benefit they provide. We shall also pursue opportunities to diverse our funding and take a leadership role in the development of shared services to minimise our costs and maximise our investment in the natural heritage.*

**Reputational**

*Our work attracts a high level of interest in the policy and operational decisions we take to deliver our outcomes from a wide range of external stakeholders. We must take account of their views as part of our balancing duties. However, as an evidence-based organisation we must also be rigorous in ensuring that the decisions we take are based on solid evidence. This can be difficult due to the uncertainty addressing the twin crises of biodiversity loss and climate change and as such, we shall be prepared to take decisions where there may be no consensus across all stakeholders and where it is judged that this is in the best interest for the natural heritage and wider socio-economic needs.*

## Annex B – NatureScot Risk Appetite Table and description of each level of Risk Appetite

|  | **Minimal** | **Cautious** | **Open** | **Hungry** |
| --- | --- | --- | --- | --- |
|  | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** | **13** | **14** | **15** | **16** | **17** | **18** | **19** | **20** | **21** | **22** | **23** | **24** | **25** |
| **Nature** |  |  |  |  |  |  |  |  |  |  |  |  |  | Manageable |  |  |  |  |  |  |  |  |  |  |  |
| **Compliance** |  |  |  | Manageable |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Operational** |  |  |  |  |  |  |  |  |  |  |  |  | Manageable |  |  |  |  |  |  |  |  |  |  |  |  |
| **Resources** |  |  |  |  |  |  |  |  |  |  |  | Manageable |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Reputational** |  |  |  |  |  |  |  |  |  |  |  | Manageable |  |  |  |  |  |  |  |  |  |  |  |  |  |

**Annex B (c’tnd)**

| Risk Appetite Level  | Minimal | Cautious | Open | Hungry |
| --- | --- | --- | --- | --- |
| Risk Categories | The main focus is to play it very safe. A low level of risk taking will always be the overriding concern, accepting this may reduce the potential reward.  | Preference for safe delivery options but prepared to look at the options and accept a medium level of risk taking that should provide a satisfactory degree of reward.  | Willingness to consider all delivery options, accepting the higher level of risk taking which this could involve but which potentially increases the reward  | Eager to pursue all potential delivery options which despite the very high level of risk which this would involve has the potential to maximise the reward. |
| Compliance/Regulatory | Play it very safe, avoid anything which we could be challenged on, however minor this might be | Some limited tolerance for how we interpret the required compliance. Want to be reasonable sure though that we could win any challenge if this arises. | Willing to take decisions that have the potential to stretch the interpretation of the required compliance. Any challenge could be problematic with no absolute certainty that we win  | Willing to push the limits over compliance, acknowledging the very high level of risk involved with this and the potential danger which this could create |
| Operational | Play safe, avoid if possible actions which have the potential to risk current ways of operating | Prepared to consider making decisions that would have some risks attached to them but if managed would have some benefit for improving current ways of operating | Willing to take decisions to improve current ways of operating despite the higher degree of risk taking which this might involve, acknowledging that these may not always be successful | Overriding focus is on making decisions to optimise operational delivery but which attracts a very high level of risk taking and an increased possibility that these may not be successful  |
| Nature | Avoid any decisions which could negatively impact on nature, however minor or short-term | Prepared to consider making decisions which could be perceived as having some minor impact on nature but which are seen as worth taking and/or are short-term in nature | Willing to take decisions which might potentially be seen as impacting on nature but which could help obtain a wider outcome/benefit | Willingness to make decisions where there is a very high risk that they could impact on nature where the advantages are considered to outweigh the negatives  |
| Reputational  | Very little tolerance for making decisions or actions where there is the potential that it could lead to adverse scrutiny or criticism from any sector or community | Prepared to consider making some decisions or actions where there is a possibility that it could potentially lead to adverse scrutiny or criticism from one or more sectors or communities  | Willing to take decisions or actions which has a high degree of likelihood that it will expose the organisation to adverse scrutiny or criticism from one or more sectors or communities | Readiness to take decisions where it is almost certain that we would be exposed to adverse scrutiny or criticism from one or more sectors or communities |