

# Title: Board Paper - Future Risk Appetite

**Date: 18 May 2022**

| **Purpose:** | Decision |
| --- | --- |
| **How does this link with our corporate priorities of improving biodiversity or delivering nature-based solutions to climate change:** | To support us in delivering the 2022-26 Corporate plan we must confirm our risk appetite statement reflecting the organisation’s approach to risk in strategic decision making.Our 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 for All’. |
| **Recommendations:**  | Board are asked to:* **Consider a new manageable range towards ‘hungry’ for the Nature category**
* **Confirm the new risk appetite**
* **Confirm the category risk statements**
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| **Sponsor:**  | Stuart MacQuarrie – Deputy Director of Business Services and Transformation |
| **Appendices**:  | Annex A - NatureScot Risk Appetite Table and description of each level of Risk AppetiteAnnex B – Risk Categories and Risk Statements |

## Purpose

1. This paper seeks to build on the discussions at the last Board meeting to confirm 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. The current risk statements covering risk categories used within NatureScot have been updated to reflect the direction of the new Corporate Plan. The risk appetite for each category was considered at the Board meeting in March where the Corporate Plan was signed off. Initial views on adjustments required to our strategic risk appetite were gathered through a poll. In response the risk appetite levels and the risk statement narrative have been updated.

**Changes to Risk Appetite**

1. Annex A is the updated [NatureScot Risk Appetite Table and the description of each level of Risk Appetite](#_Annex_B_–). The table reflects the range within which the risk is considered manageable. The ranges are:
* **‘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. Although the manageable zone can straddle two levels, it is recommended that 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. Ongoing risk monitoring will ensure oversight of increasing risk levels and appropriate escalation routes are maintained.
2. There are currently 2 categories which straddle two levels, resourcing and reputation. As they are predominantly within the open level, this does not expose us to significant additional risk. Examples have been provided to full illustrate this in the table on the next page.
3. As a result of the poll the manageable range has changed to:

| **Risk Category** | **2018-2022** | **2022-2026** |
| --- | --- | --- |
| **Nature** | 13-18 | 14-18 |
| **Compliance** | 4-9 | 5-10 |
| **Operational** | 14-18 | 14-20 |
| **Resources** | 12-17 | 12-19 |
| **Reputational** | 13-16 | 13-18 |

1. SLT previously provided some feedback on the Nature risk category which has been edited to include restoration as well as protection. The dialogue with the Minister expressed an expectation for us to be more ambitious around nature restoration and SLT recommend a move above the open risk appetite to hungry. This shows a willingness to make decisions where there is a very high risk that they could impact on nature but where the advantages are considered to outweigh the negatives.
2. What does this mean? Currently the Board has collectively proposed an open risk appetite for all areas except compliance where the appetite is cautious. Where the appetite is open, NatureScot is willing to consider all delivery options, accepting the higher level of risk taking which this could involve but which potentially increases the reward.
3. To illustrate the risk appetite for each category, examples are included below:

| Category  | Examples of risks |
| --- | --- |
| Nature | Species – (Hungry) reducing predator numbers for species such as pine martens to support the growth of Capercaillie numbers, negatively impacting those species in order to deliver the benefits for another. Landscape scale – (Hungry) increased rewilding and restoration needs development to be effective with opposition and conservation conflicts reducing environmental benefits elsewhere (such as new management agreements). |
| Compliance | Fraud – (Cautious) Example introducing a new systems for licensing or management agreements but not putting in the proper checks to prevent fraud resulting in financial losses and governance issues. FOI/GDPR – (Cautious) Not following GDPR/FOI or other legislative requirements resulting in a fine and or disallowance (AECS/Structural Funds). |
| Operational | Organisational Design – (Open) implementing a new business model/delegating decision making which will significantly improve the way we work but may reduce the consistency of application of internal controls. Prioritisation – (Open) temporary collaborative working internally on major projects such as M365 or lead partner opportunities externally such as Green Infrastructure which improve our ability to deliver our objectives but may impact on available funding/resources for other projects.  |
| Resources | Leading externally funded projects - (Cautious) no willingness to lead where there is a risk of disallowance which would reduce the impact we have on maximising shared resources to deliver nature based solutions and may reduce offers for external investment in the future.Reprioritisation – (Open) focusing on all benefits rather than money which will ensure we are funding the areas of work best suited to deliver our objectives but may cause affordability issues and opposition from stakeholders. Additional Finance – (Open) generating private finance such as the Scottish Marine Environmental Enhancement Fund (SMEEF) which is a new opportunity but could lead to a reduction in grant in aid through the generation of a new income streams. |
| Reputational | Licencing – (Cautious) Fully staffed administrative team to ensure no backlog whilst increasing compliance monitoring to ensure there is not negative impact on nature or our reputation.Licensing – (Open) Administering a function, seeking support through peak times to reduce backlog with compliance monitoring at lower levels unless evidence of higher monitoring needs occur which could result in customer dissatisfaction and increased non-compliance. |

**Recommendations**

1. Board are asked to:
* **Consider a new manageable range towards ‘hungry’ for the Nature category**
* **Confirm the new risk appetite**
* **Confirm the category risk statements**

## Annex A – 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 A (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  |
| Resources | Avoidance of financial loss is the key outcome. We are only willing to accept the low cost option as Value for Money is the primary concern. Avoidance of any perceived negative impact on staff is also a primary concern. | Prepared to accept possibility of some limited financial loss. Value for Money still the primary concern but willing to consider other benefits. Prepared to accept the possibility of some minor impact on staff but which is considered should be recoverable in the short term.  | Prepared to invest for return and minimise the possibility of financial loss by managing the risks to a tolerable level. Prepared to tolerate the possibility of some impact on staff where it is considered that the action is worth pursuing. | Consistently focussed on the best possible return and accept the possibility of financial loss (with controls in place). Willingness to accept the possibility that staff might be impacted by the action where the reward is deemed to be of greater value. |
| 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 |

**Annex B - 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. 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 high risk of a negative impact on nature of proposed activities. We shall take decisions and advise accordingly however we are willing to tolerate some negative impact where the advantages for nature outweigh them.

**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.

**Resource**

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.