

# Title: Risk Appetite - 2024/25

**Date: 6th December 2023**

| **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:** | Active risk management is vital to the successful delivery of our Corporate Plan priorities and to the effective operation of NatureScot. |
| **Summary:** | Risk appetite is the amount and type of risk that an organisation is willing to take to meet their strategic objectives. Risk appetite levels are as follows:   * Compliance – cautious * Operational – open * Reputational – open * Resources – open * Nature – open |
| **Recommendations:** | Board is asked to:   * Confirm that it is content with the current risk appetite level for each risk category as an accompaniment to the discussions on business plan priorities for the year ahead, noting the changing operating environment. |
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| **Sponsor:** | Stuart MacQuarrie |
| **Appendices**: Please note all appendices. | Annex A – Risk Appetite Statements  Annex B – Strategic Risks to delivery of the Business Plan |

## Purpose

1. This paper seeks to confirm our strategic risk appetite so that it can be used to aid and inform current and future strategic-related decisions aligned to the 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. NatureScot applies a framework for risk management that is flexible enough for the size, complexity, location, and potential sector-based changes required to tackle the nature/climate crises. We use the Management of Risk (M\_o\_R) approach because it is principle based and follows the international standard ISO31000:2009 for risk management.
2. The risks within NatureScot are broken down into five categories (See Annex A). Before applying a risk appetite, each category is considered by SLT and then Board considering factors such as: what level of authority we have, our knowledge and evidence base, what governance and procedures we have in place, and what resources we have at our disposal that would allow us to manage the risks to a tolerable level.

## What is risk appetite?

1. When faced with strategic decisions we need to consider both the benefits to be achieved and the associated risks. When taking risks we must consider our capability and capacity to manage them e.g. what resources and skills we possess, our knowledge and expertise, our resources, how strong our relationships are with stakeholders and our reputation.
2. There are four levels of risk appetite:

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| Risk Appetite | Description | Risk Exposure |
| Minimal | Preference for ultra-safe options that are low risk and only have a potential for limited reward. | Low |
| Cautious | Preference for safe options that have a low degree of risk and may only have limited potential for reward. | Low/medium |
| Open | Willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for money. | Medium/high |
| Hungry | Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk and its potential consequences. | High/very high |

1. During 2022/23 SLT and Board were asked to consider the risk appetite levels for the 5 risk categories. The risk appetite for each risk appetite that were agreed as follows:

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| --- | --- |
| Risk Category | Risk Appetite |
| Compliance | Cautious |
| Operational | Open |
| Reputational | Open |
| Resources | Open |
| Nature | Open |

1. Our risk appetite statements are contained in [Annex A](#_Annex_A_-_1), and aside from some minor revisions we don’t propose any change to this, but we need to ensure that our decision making is aligned to our risk appetite and reflects the change in the fiscal landscape as described below in para 9.
2. [Annex B](#_Annex_B_-) sets out the strategic risks for each risk category alongside the risk appetite.

## Changing Operating Context – Potential Impact on Risk Appetite

1. Since last year’s risk appetite review the budget outlook is significantly more challenging. This will require difficult decisions around stopping or scaling back on work in support of government priorities. This includes work on statutory responsibilities. As a result our risk exposure, particularly around reputation, will increase which is reflected in the related statement in Annex B. This should not change the current ‘open’ level of risk appetite for this category as we will need to be pro-active in putting in place mitigation measures to best manage our risk exposure, particularly around managing government and other stakeholder expectations.
2. SLT considered it appropriate to retain a cautious approach to the compliance category but noted that it may become more challenging to provide assurance against this category if resources become squeezed and an open appetite is retained against the other risk categories. Compliance activities may require to be prioritised and a greater tolerance of the risk of non or partial compliance may be needed.
3. How we deploy our available resources to best tackle the climate-nature emergency will also be a key consideration. Value for money will remain a key control to ensure we are not investing this in the wrong places. However, the ‘open’ level of risk taking should mean that we utilise our resources as creatively and innovatively as possible, seeking new ways of delivery as reflected in the ‘operational’ risk category.
4. Therefore, SLT are keen to understand the Board’s view on whether the risk appetite should be reviewed given the greater challenges that will come from a reduced budget settlement. In essence the Board may consider that having an Open risk appetite in relation to NatureScot’s approach to investing in projects may be less appropriate as we enter a period of greater financial constraint and, potentially, a need for greater certainty around the achievability of project deliverables.
5. Similarly, Board may also wish to review the current open appetite in regard to the Nature category. This might also be affected by the constraints of the budget settlement which could lead us to focus on activities that we already know will make a positive difference and reduce the risks of managing unplanned consequences from our activities.

## How do we embed our principles into risk appetite?

1. Risk reviews take place quarterly at Directorate meetings to identify any opportunities or emerging risks. We look to challenge ourselves to consider more options to increase our opportunities and therefore reward where we can. A supportive culture is key to ensure staff feel confident to take risks and opportunities.
2. Communication, training, and stakeholder engagement is essential both to support colleagues to take decisions themselves and be confident to seek out opportunities. For stakeholders, it’s important to understand their position and to work with them to enhance opportunities for shared delivery of objectives. We also seek to measure the performance of objectives through our PuMP performance management approach which considers both the process and the softer skills elements of training and development on the organisations approach to risk appetite.

## Conclusions/Recommendations:

1. The Board is asked to:

* Confirm that it is content with the current risk appetite level for each risk category as an accompaniment to the discussions on business plan priorities for the year ahead, noting the changing operating environment.

## Annex A - Risk Appetite Statements

## Compliance/Regulatory

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 in line with available capacity. 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 and where a proportionate approach to compliance is considered to be appropriate.

## Operational

We encourage innovation and creativity in the way we deliver our work, particularly at the local level, in order to maximise our impact from investing in Scotland’s nature, 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.

## Reputation

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 best evidence. 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 nature and wider socio-economic needs. We shall also ensure that we are effective in how we communicate our position so that there is a common understanding about our stance.

## Resources

We recognise that public finances will continue to remain under significant pressure. We will therefore ensure that we are proficient and innovative in the decisions we take on the use and deployment of our resources to maximise the public benefit they provide. This will include seeking opportunities for the increased use of innovate technology and diversifying the workforce to help facilitate and bring new ideas to the organisation. We shall also pursue opportunities to diversify our funding and take a leadership role in the development of shared services to minimise our costs and maximise our investment in nature.

## Nature

As the body responsible for demonstrating leadership in the climate-nature emergency we shall continue to pursue policies, take decisions and undertake actions that protects and restores nature, encourages ownership, and raises awareness and appreciation of its value i.e. its natural capital. We shall also take account of our ‘balancing duties’ and acknowledge the range of interests across stakeholders but where there may be threats from proposed activities we shall take a precautionary approach and take decisions and advise accordingly to ensure sufficient safeguards are in place.

## Annex B - Strategic Risks to delivery of the Business Plan

| **Risk Appetite** | **Risk Comment** |
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| **Nature -** We shall continue to pursue policies, take decisions and undertake actions that protects nature, encourages ownership and raises awareness and appreciation of its value i.e. its natural capital. | The key strategic risk for this area would be our failure to demonstrate sufficient leadership or our inability to respond, at the pace required, to the drivers for biodiversity loss, particularly where there are actions that are within our direct influence. We will manage this through actions such as taking a national leadership role for the SBS Delivery Plan, providing leadership on sustainable and integrated land use, demonstrating the relevance of natural capital and enabling the sustainable management of Scotland’s wildlife.  The global prominence given to the climate-nature emergency continues to provide us with the opportunity to place nature-based solutions front and centre in taking climate change action. We seek to achieve this through our influencing and advice to policy makers on the role of nature in delivering a range of public benefits, and through other actions such as carbon sequestration by way of peatland restoration. |
| **Operational -** We shall encourage innovation and creativity in the way we deliver our work, particularly at the local level, in order to maximise our impact from investing in Scotland’s nature and providing more benefits for more people. | The strategic risks in this area will mainly relate to the threat that we are unable to change our current ways of operating, thereby limiting our influence on reversing biodiversity loss and taking action on climate change. We will manage this through our Organisational Development Framework, our Operating Model, increasing our leadership capability and by challenging current approaches to delivery  Related to this is our ability to sustain business operations within a challenging budget settlement. We shall therefore continue to develop 90-day Business Plans and maintain a critical review of our priority areas of work and the resourcing of those. To support this we shall seek to be innovative and creative in our approach to delivery, accepting however that budget constraints will likely limit our ability to fully deliver all statutory obligations. |
| **Reputation -** We shall be rigorous in ensuring that the decisions we take are based on best evidence. We shall therefore 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 nature and wider socio-economic needs. | The strategic risks for this area are mainly around our ability to demonstrate effective leadership in reversing biodiversity loss and tackling climate change. A challenging budget settlement will increase this risk exposure as we withdraw from areas of work that we formally undertook, particularly those considered statutory. We will manage this through providing national leadership, a laser focus on a work programme that helps address the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) drivers, and delivering on our ambition to be a successful, forward thinking and influential nature agency.  Related to this is our leadership role in sustainable wildlife management, particularly in the upland environment. We will continue to seek to influence all stakeholders in this area, looking to ensure that we maintain ongoing dialogue and clear communications. We will challenge practices which are not sustainable and promote alternatives. |
| **Resources -** We will ensure that we are proficient and innovative in the decisions we take on the use and deployment of our resources to maximise the public benefit they bring. | The main strategic risk is our inability to make effective use of our available resources, or to attract new sources of funding, thereby limiting our capacity to maximise our investment in nature. The challenging budget situation means difficult decisions on where resources are being invested to where they will have the optimum impact, accepting that this will mean we cannot resource some statutory areas.  We will manage this through rigorous prioritisation of how we deploy our budget and resources; continue to implement our new Operating Model that enables and improves decision making; and continuing to develop our skills and expertise for the future. We shall also continue to develop our work on Green Finance as resources permit, focusing on increasing significant investment in nature across sectors, as well as seeking to attract other forms of funding to enhance the impact of our core Grant in Aid. |
| **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. | The strategic risks in this area would be any inability to ensure that we are consistent and proportionate in our advice and actions in delivering a high-quality public service, particularly if the challenging budget situation means we are unable to undertake some compliance requirements leading to challenges around our decisions.  This requires us to take a risk-based, contextualised approach to our work, as well as ensuring that we continue to simplify internal processes, procedures and ways of working. We will manage this through rigorous prioritisation in setting team objectives, monitoring of our compliance requirements, ensuring that our governance arrangements are fit for purpose, maintained, and where appropriate, validated through quality assurance checks. |

The following strategic risks are currently managed as part of our Corporate Risk Register:

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| **Risk** | **Nature** | **Operational** | **Reputational** | **Resources** | **Compliance** |
| No 21 – Budget Management |  |  |  | **x** | **x** |
| No 47 – Computer Virus/Malware |  |  |  |  |  |
| No 71 – SRDP: NatureScot’s Delivery Partner Responsibilities |  |  | **x** | **x** | **x** |
| No 85 – Adapting to Strategic Change | **x** | **x** | **x** |  |  |
| No 137 – Staff Resource Management |  | **x** |  | **x** |  |
| No 253 – Peatland Action: Annual Funding Cycle | **x** |  |  | **x** |  |
| No 393 – Future Funding of NatureScot |  | **x** |  | **x** |  |
| No 586 – Structural Funds – Failure of Programme Delivery |  | **x** | **x** | **x** | **x** |
| No 645 – Biodiversity Loss | **x** |  | **x** |  |  |
| No 646 – Weakened Reputation |  | **x** | **x** |  |  |
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