

Annual Risk Appetite Review

1 Purpose of the paper

- 1.1 This paper is for discussion and decision.
- 1.2 The purpose of the paper is to consider whether FSS's Risk Appetite Statement, which was last reviewed and agreed at the Board meeting on 13 December 2023, continues to provide the FSS Board and Executive with an adequate framework to support effective risk management.
- 1.3 The Board is asked to:
 - **Discuss and provide a view** on whether the risk appetite statement remains fit for purpose and remains proportionate.
 - **Discuss and provide a view on** the proposal to review the Risk Appetite Statement in line with the development of the 2026-31 FSS Strategy
 - **Discuss and provide a view on** the proposal to focus our risk appetite high level statements on the level of risk to be taken to achieve objectives, rather than setting a level of appetite related to delivery of objectives and mapped to target score and threshold.

2 Strategic Aims

- 2.1 This work supports all five FSS Strategic Outcomes.

3 Background

- 3.1 Our FSS risk appetite defines the levels of risk FSS is prepared to accept, or not accept, in delivering its objectives, and ultimately our 5-year Strategy.
- 3.2 As stated in the [Scottish Public Finance Manual](#), risk appetite may be looked at in different ways depending on whether the risk being considered is a threat or an opportunity:
 - When considering threats, the concept of risk appetite embraces the level of exposure which is considered tolerable and justifiable should it be realised. In this sense it is about comparing the cost (financial or otherwise) of constraining the risk with the cost of the exposure should the exposure become a reality and finding an acceptable balance.
 - When considering opportunities, the concept embraces consideration of how much we are prepared to actively put at risk in order to obtain the benefits of the

opportunity. In this sense it is about comparing the value (financial or otherwise) of potential benefits with the losses which might be incurred.

- 3.3 Generally our appetite for risk varies dependent on the particular category of risk it is. Our risk appetites support our risk process and facilitates the prioritisation of risk mitigations, and therefore resources, on risks outside of our agreed acceptable limits.
- 3.4 The table below describes the different levels of risk appetite and the likely approach we would take to the management of risks as a result of the appetite.

RISK APPETITE	DESCRIPTIONS
Averse	Avoidance of risk in achievement of key objectives is paramount. Activities undertaken will only be those considered to carry little inherent risk e.g. around statutory requirements.
Minimalist	Tendency to undertake activities that are considered safe in achieving objectives. There should be a low degree of inherent risk. The pursuit of opportunity is not a key driver in this area.
Cautious	Willingness to accept a degree of risk in order to achieve key delivery objectives. Particularly where the opportunity of significant gains has been identified. Inherent risk is deemed controllable to a large extent.
Open	Aim to undertake activities that have a high degree of value for money, the likelihood of success being a determining factor. These activities may potentially carry a large amount of residual risk.
Hungry	There is an eagerness or requirement to be innovative and a focus on activities designed to maximise opportunity. This approach will carry with it very high residual risk in pursuit of very high reward.

- 3.5 At the 13 December 2023 Board, the Board agreed the following changes which have now been reflected in our risk appetite statement (**Annex A**). Additional changes that were discussed at the meeting have been reflected below.

- 3.5.1 The proposal to include a new statement under Financial to read “hungry to be working with Scottish Government and partner agencies to scope, consider and invest in spend to save transformational opportunities”.
- 3.5.2 The proposal to extend the wording under Policy / Legal / Regulation / Enforcement “Averse to risks that have impact on animal health and welfare” to include the word “detrimental”.
- 3.5.3 The category “Operational delivery” to be changed to “Organisational Delivery” to encompass all staff and incorporate learning, wellbeing etc.
- 3.5.4 Include a sustainability example under policy / legal / regulation / enforcement.

4 Discussion

- 4.1 Earlier in the year the Corporate Support Branch organised a facilitated training session on risk appetite for the FSS Board. The session, facilitated by the Scottish Government (SG) Head of Risk Management and Policy, was designed to provide the Board with an overview of risk appetite and how it can help FSS understand its risk environment and set the tone for how much risk FSS is willing to take (and not take) when delivering its remit.
- 4.2 This was followed with a similar session at the October 2024 EMT meeting. Facilitated again by the SG Head of Risk Management and Policy this session was designed to provide FSS EMT an overview of the organisation's current approach to risk appetite and seek input on the review and update of FSS risk appetite statements ahead of presentation to the Board in December 2024.
- 4.3 Alongside the above, over the past number of months, we have been liaising extensively with the SG Head of Risk Management and Policy with regards our risk appetite statement and reviewing both the SG's and Forestry and Lands risk appetite statements.
- 4.4 As the Board are aware, work has commenced on the production of our new FSS Strategy 2026 – 31, and this provides an ideal opportunity for FSS to undertake an in-depth review of our risk appetite statement in line with development of the Strategy.
- 4.5 Based on our learnings, risk appetite best practice, training sessions and discussions with the SG Head of Risk Management and Policy, we have included in this paper (**Annex B**) an example of our proposed revised approach, when reviewing our risk appetite statement in line with our 2026 – 31 Strategy development. **Annex C** provides a real example of how this translates to our risk appetite, risk tolerance and risk capacity. This proposed approach focuses on the level of risk to be taken to achieve objectives rather than setting a level of appetite related to the delivery of objectives. Our approach also proposes to map risk appetite statements to risk target scores and thresholds to greater align our risk appetite to our FSS risk registers and overall risk management process.
- 4.6 It is considered appropriate, at this point, that we retain our current risk appetite statement alongside undertaking an in-depth review and re-write in line with the development of our 2026 – 31 Strategy.

5 Equality Impact Assessment and Fairer Scotland Duty

- 5.1 Completion of an Equality Impact Assessment (EQIA) and a Fairer Scotland Duty Assessment are not required for this paper.

6 Conclusion/Recommendations

- **Discuss and provide a view on** whether the risk appetite statement remains fit for purpose and remains proportionate.
- **Discuss and provide a view on** the proposal to review the Risk Appetite Statement in line with the development of the 2026-31 FSS Strategy
- **Discuss and provide a view on** the proposal to focus our risk appetite high level statements on the level of risk to be taken to achieve objectives, rather than setting a level of appetite related to delivery of objectives and mapped to target score and threshold.

Please direct queries to:

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Annex A: FSS Risk Appetite

Public Health / Consumer Protection	<p>Averse to material risks that have potentially significant impact on public health</p> <p>Cautious where there is uncertainty around the balance of risks and benefits for public health or other consumer interests</p> <p>Open to new approaches and partnerships with the potential to enhance public health/consumer protection or to improve dietary health</p> <p>Hungry for innovative ways of improving the Scottish diet and reducing risks to the food chain</p>
Policy / Legal / Regulation / Enforcement	<p>Averse to approaches that fall short of legal requirements</p> <p>Averse to risks that have detrimental impact on animal health and welfare</p> <p>Open to policy/regulatory approaches that are evidence based, with the potential to produce the best outcomes in Scottish-specific circumstances</p> <p>Open to pursuing innovative approaches for implementing Regulatory Standards where analysis indicates potential for significantly improved compliance</p> <p>Hungry for policy approaches that combat the food-related effects of inequalities</p> <p>Hungry to apply the principles of better regulation, applying regulatory approaches which minimise burdens on businesses where appropriate</p> <p>Hungry to develop and apply the principles surrounding sustainability and carbon reduction as well as open to implementing the Climate Change (Emissions Reduction Targets) (Scotland) Bill 2024 once enacted.</p>
Organisational Delivery	<p>Averse to approaches which could potentially compromise the safety or wellbeing of staff</p> <p>Open to partnership working with the potential for improved compliance outcomes</p> <p>Hungry to consider innovation (e.g. working practices, systems, new technologies) with the potential to deliver improved efficiency and effectiveness</p> <p>Hungry to develop a skilled, confident and empowered workforce</p>

Reputation / Authority / Public Confidence	<p>Cautious about activities which could impact on our ability to influence effectively to protect consumers</p> <p>Open to making evidence-based decisions and recommendations and influencing opinion where we are clear that the benefits for consumers outweigh the risk</p> <p>Open to advocacy on behalf of consumers, where there is evidence to support their interests</p> <p>Hungry to exploit communication channels which promote FSS as the trusted source of advice on food safety, standards, diet and nutrition</p>
Relationships / Partnerships	<p>Cautious around our relationships with industry and government to safeguard our independence and ensure our work prioritises consumer interests</p> <p>Open to contributing to Scottish Government strategy for promoting sustainable economic growth within the Scottish food and drink sector and supporting future export markets, ensuring there is no conflict with our consumer protection role</p> <p>Hungry to working with all partners who are able to help us in achieving our strategic goals</p> <p>Hungry to form partnerships with the potential to influence consumers' dietary behaviour</p>
Financial	<p>Averse to risks of internal fraud or corruption</p> <p>Minimalist but willing to consider options with other financial risks if they have the potential to deliver success</p> <p>Hungry with regard to new approaches which could positively impact on efficiency and value</p> <p>Hungry to be working with Scottish Government and partner agencies to scope, consider and invest in spend to save transformational opportunities</p> <p>Minimalist but willing to consider some litigation consequences if we are unable to recruit official veterinarians, for reasons out with our control, which results in disruption to delivery of service</p>
External Factors	<p>Minimalist to risk of impact of external events; robust business continuity and incident management plans in mitigation</p> <p>Open to the possibility of divergence where we are not involved in making decisions which impact upon us</p>

Annex B: FSS revised approach to our risk appetite statement (example)

Category	High level statement	Appetite Level	Target score / threshold
People Champion: Garry McEwan	<p>With people being our greatest asset, our risk appetite is medium, and we are cautious to taking risks relating the deployment of our staff, seeking to ensure there is appropriate flexibility to match skills and capabilities with demand.</p> <p>We will take a low / minimalist approach to the wellbeing of our staff, ensuring that the workplace is inclusive and supports safe and healthy working.</p>	Risk to deployment of staff - Medium / Cautious	40-75
		Risk to wellbeing of our staff Low / Minimalist	20-30
Financial Champion: Garry McEwan	<p>We recognise public finances will continue to remain under increasing pressure. We will therefore ensure that we are proactive and proficient in the decisions we take on the use and deployment of our resources to maximise business benefits, ensuring financial resilience. FSS aims to maintain a balanced budget at the end of each financial year, meet its statutory obligations and avoid instances of fraud. Our financial risk appetite is very low, and we are averse to taking risks that negatively impacts on the management of our finances.</p> <p>We shall also pursue opportunities to diversify our funding, identify areas for income generation and take a lead role in the development of shared services and/or partnership working to minimise our overall costs and maximise returns on our investments. To improve sustainability of our resources we will accept a minimal risk to our resources where it will secure longer-term business benefits.</p>	Risk to the management of our finances – Very low / Averse	5 – 10
		When longer term business benefits can be sought – Low / Minimalist	20-30

Annex C: Risk example - EU Exit budget allocation (2022/23)

Risk: There is a risk that FSS will have insufficient revenue allocation to deliver BAU as well as EU consequential work across Scotland.

Current Risk					Target Risk		
Likelihood	Impact	SCORE	(threat) Trend	Proximity	Likelihood	Impact	SCORE
(4) 5	50	250 ↑	Increasing	Imminent	3	25	75

QUARTERLY SCORE TRENDS

	Q1	Q2	Q3	Q4	Q1
3. EU Exit Budget Allocation			200	200 ↔	250 ↑

Key Points:

- **Risk Appetite:** Target risk score at 75 and higher than our proposed appetite level for financial (very low / averse), i.e. requires greater scrutiny at ARC / SLT level to investigate options to treat, transfer or terminate the risk to help FSS reduce the target risk score to the appetite level.
- **Risk Tolerance:** In Q3 and Q4 we are tolerating this risk with controls and actions in place to manage the risk down (albeit presently not to risk appetite level).
- **Risk Capacity:** Q1 risk score increased to 250, this meant for FSS that the amount of risk is now far beyond our appetite and tolerance and was escalated to an overall FSS budget allocation risk and moved to our FSS Strategic Issue Register.

