

RISK APPETITE REVIEW

1 Purpose of the paper

- 1.1 This paper is for discussion and decision.
- 1.2 Its purpose is to consider, in light of our experience of Covid-19, whether FSS's risk appetite statement continues to provide the FSS Board and Executive with an adequate foundation/framework/underpinning to support effective risk management, and to suggest an approach to developing an updated statement.
- 1.3 The Board is asked to:
 - **Discuss and provide a view** on whether the current statement of risk appetite remains fit for purpose and we stay with the current approach
 - **Discuss and provide a view** on a revised approach to reviewing FSS's risk appetite
 - **Discuss and provide views and direction** on the content and coverage of an updated statement of risk appetite
 - **Discuss and provide views** on a broader intent to represent the wider interests of consumers in relation to food and agree the risk appetite

2 Strategic Aims

- 2.1 This work supports all six FSS Strategic Outcomes.

3 Background

- 3.1 Risk analysis and management is core to our purpose. We were established to protect the public from risks to health related to food consumption, as well as to improve diets and to protect consumers' other interests in relation to food. At the strategic level, FSS acts as a Central Competent Authority, with oversight for the safety of the food system in Scotland. Alongside food safety, we are ultimately responsible for food authenticity, and for dietary health. That means considering the potential risks - assessing and prioritising them in terms of their potential impact on public health and consumer interests, and our own ability to mitigate or influence them. We cannot manage all of the risks ourselves and others in the system – food business operators (FBOs), local authorities (LAs), and consumers - all have a role to play.
- 3.2 The rate of change in the food system is increasing, and Brexit, overlaid on that rapid change, exposes us directly to a global food system, without the intermediary risk analysis processes of the EU.
- 3.3 COVID-19, with its impact across the entirety of our remit and organisation, is a sharp reminder that external factors/shocks can require us to produce an

immediate response and urgent risk management decisions. Four examples, which tested the robustness of our risk appetite statement, can be drawn from our experience of COVID-19 thus far:

Regulation, e.g. a pragmatic approach to enforcement of food safety non-critical labelling requirements, or extension of the shelf life of vacuum packed meat.

Foodborne illness preventative measures, e.g. relaxation of controls in the Salmonella National Control Plan

Surveillance – reduced sampling, and reduced reporting levels of incidents and outbreaks leaving FSS unsighted on public health issues.

Health and safety - health protection for key staff (e.g. in meat plants)

- 3.4 Does the current risk appetite statement support risk management decision making around the examples in 3.3 drawn from our experience of COVID-19?
- 3.5 Taking the COVID-19 examples in paragraph 3.3, our low risk appetite with respect to public health and reputation frames our risk assessment and risk management decisions regarding pragmatism in regulation and enforcement, and any reduction in foodborne illness preventative measures or surveillance. We balanced the wider and more immediate public health impact of COVID-19 against the public health impacts of relaxation of regulation or reduction of foodborne illness controls and surveillance, and decided upon levels of mitigation accordingly. Our low risk appetite with respect to public health doesn't prevent us from taking risks – and in some circumstances we have no choice – but it does prompt us to balance risks and benefits carefully, and to make strenuous efforts in terms of mitigation.
- 3.6 Our current risk appetite statement does not provide a framework or support for risk management decisions with respect to the health and safety of FSS staff. The statement focuses on strategic risks to our purpose and objectives (public health, and reputation) and apart from the reference to finance, it is silent on internal (or operational) risks. Equally, it does not refer to risks arising from external factors. There would seem to be some benefit in considering whether our risk appetite statement could be reviewed or expanded in order to provide more confidence in making judgements with respect to risk.
- 3.7 We have also seen with the recent announcements of a Trade and Food Commission the possibility of views being expressed on issues within our remit. There is therefore a question to address on the Board's appetite to comment on broader issues that are of interest to consumers in relation to food as per our legislation. More often than not it is likely that this may appear to encroach on areas where others (either organisations or Ministers) are seen to have a lead.
- 3.8 In light of this, the Executive feels that it would be prudent to consider whether our current risk appetite statement, intended to provide guidance on the degree of tolerance that should be applied to a range of risks, provides an adequate underpinning for risk assessment and management. If not, can it be updated to render it fit for purpose to support risk assessment and management decision making in all situations?

4 Discussion

- 4.1 The Treasury describes risk appetite as '*the nature and extent of the principal risks that the organisation is exposed to and is willing to take to achieve its objectives*', a 'principal risk' being '*a risk or combination of risks that can seriously affect the performance or reputation of the organisation*'¹. Good practice guidance² suggests four different types of risk: internal (which the organisation can manage through internal controls and additional mitigating actions); external (managed by making the organisation more resilient, e.g. with a business continuity plan); strategic (principal risks to achievement of the organisation's purpose and objectives); and major projects (risks specific to the project).
- 4.2 FSS's risk appetite (see Annex A for the statement in full) is stated as, essentially:
- Low** for public health
 - Low** for finance
 - Low** for reputation/trust during non-routine incidents (linked to the public health risk)
 - Medium** for reputation/trust in normal circumstances
 - High** for innovation.
- 4.3 In November 2019, the Board agreed that FSS's risk appetite statement remained applicable, and that the Executive should continue to use it to support FSS decision making. At the same time, the Board decided that risk appetite should be reviewed once we had a clearer understanding of the direction of travel in relation to Brexit.
- 4.4 We still are not clear on the direction of travel for Brexit. However, COVID-19 has presented us with a situation where we have needed to make risk management decisions urgently in response to an external shock, and the robustness of our risk appetite statement can be tested against this.
- 4.5 The Board is also asked to consider and express its views on its appetite for comment and engagement on the wider aspects of consumer interests in relation to food. The most obvious examples relate to potential trade outcomes and the application (or not) on issues such as animal welfare standards, environmental issues etc. To date, it is probably fair to say that the use of powers in Section 2(1)(c)³ has been limited. It is clear, however, that consumer interests in relation to post Brexit trade deals should be represented and as we have the statutory authority to do so that we should. In doing so the Executive

¹ [Orange Book p.9](#)

² [Management of Risk in Government \(2017\)](#)

³ The objectives of Food Standards Scotland are –

- (a) to protect the public from risks to health which may arise in connection with the consumption of food,
- (b) to improve the extent to which members of the public have diets which are conducive to good health,
- (c) to protect the other interests of consumers in relation to food.

recommends a different approach.

5 An approach to review

- 5.1 The [Scottish Public Finance Manual](#) says that risk appetite is key to achieving effective risk management, and 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 one is 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 (some losses may be incurred with or without realising the benefits)
- 5.2 HM Treasury guidance⁴ suggests that risk appetite can be explored and stated by identifying risk categories or groupings (e.g. operational, reputational, strategic, external) and producing a matrix that relates those categories to the type of response, on a scale of risk averse to risk hungry, which each category would typically evoke.

Risk categories

- 5.3 The purpose of the risk appetite statement is to frame, rather than to replicate, management of specific risks, and so a limited number of suggested broad and high level categories are proposed for consideration. They are set out in Table 1 below, together with examples of factors that could be taken into consideration in determining risk appetite.

Table 1 – Suggested FSS risk categories

Category	Factors to consider
Public health/Consumer protection	Statutory objectives
Policy/Legal/Regulation/Compliance	Constraints imposed by external legislation/agreements; Scottish-specific circumstances; Scope for divergence; Industry/Consumer behaviour; Equality & diversity; Fairer Scotland duty; wider consumer interests in relation to food
Operational delivery	People; Skills; Health & Safety; Systems; Technology; Constraints imposed by existing

⁴[Managing your risk appetite: A practitioner's guide \(2006\)](#)

	systems/agreements/partnerships; Potential for new partnerships; Scope for innovation & need to deliver business as usual; Public body duties and responsibilities
Reputation/Authority/Public Confidence	Independence; Evidence-base; Experience; Influence (Ministers, stakeholders, partners, consumers)
Financial	Budget; Regularity & propriety; Value for money; Accountability to Parliament
External Factors	Extent and robustness of continuity and contingency plans to ameliorate exposure to external factors over which there is limited control

Risk appetite classifications

5.4 Risk appetite classifications, as suggested in HM Treasury guidance, are listed and described in Table 2 below.

Table 2 - Risk appetite classifications

Classification	Description
Averse	Avoidance of risk and uncertainty is a key organisational objective.
Minimalist	Preference for ultra-safe business delivery options that have a low degree of inherent risk and only have a potential for limited reward.
Cautious	Preference for safe delivery options that have a low degree of residual risk and may only have limited potential for reward.
Open	Willing to consider all potential delivery options and choose the one that is most likely to result in successful delivery while also providing an acceptable level of reward (and value for money etc.).
Hungry	Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk.

5.5 Taking the guidance and the above risk categories and risk classifications, a draft FSS risk appetite matrix, is offered for consideration (Table 3 below).

Table 3 – Draft FSS risk appetite

<p>Public health/Consumer protection</p>	<p>Averse to material risks that have potentially significant impact on public health Cautious where benefits for public health or other consumer interests outweigh the risk Open to partnerships with the potential to enhance public health/consumer protection or to improve dietary health Hungry for innovative ways of improving the Scottish diet</p>	
<p>Policy/Legal/Regulation/Enforcement</p>	<p>Averse to approaches that fall short of legal requirements Open to policy/regulatory approaches that have the potential to produce the best outcomes in evidence-based Scottish-specific circumstances Open to pursuing innovative regulatory approaches where analysis indicates potential for significantly improved compliance Hungry for policy approaches that combat the food-related effects of inequalities.</p>	
<p>Operational delivery</p>	<p>Averse where safety or wellbeing of staff is potentially compromised Open to partnership working with the potential for improved compliance outcomes Hungry to form partnerships with the potential to influence consumers’ dietary behaviour Hungry to consider innovation (e.g. working practices, systems, new technologies) with the potential to deliver improved efficiency and effectiveness Hungry to develop a confident and empowered workforce</p>	

<p>Reputation/Authority/Public Confidence</p>	<p>Cautious not to jeopardise our ability to influence effectively to protect consumers Open to making evidence-based recommendations or taking evidence-based decisions where benefits for consumers outweigh the risk</p>	
<p>Financial</p>	<p>Averse to risks of internal fraud or corruption Cautious but willing to consider options with other financial risks to deliver most likely success</p>	
<p>External Factors</p>	<p>Averse to risk of impact of external events; robust business continuity and incident management plans in mitigation.</p>	

6 Equality Impact Assessment and Fairer Scotland Duty

- 6.1 The Fairer Scotland Duty has been considered, and a summary assessment is at Annex B. Given that the burden of diet-related disease falls disproportionately on the deprived sectors of our community, a specific reference to risk appetite with respect to policies that could reduce such inequality has been included in Table 3 above.
- 6.2 This matter does not raise issues of equality within the terms of the Equality Act 2010 and the Equality Act 2010 (Specific Duties) Regulations (Scotland), and so an equality impact assessment is not required.

7 Conclusion/Recommendations

- 7.1 The current FSS risk appetite statement has supported strategic risk management decisions both in normal business and in circumstances of heightened pressure (high profile incidents, and the current COVID-19 crisis). There is, however, potential to review and expand the risk appetite statement so that it provides a broader high level framework to support FSS risk management at all levels. The categories and classifications at Table 3 are proposed for discussion and agreement, following which the Executive will produce a narrative risk appetite statement for Board approval.
- 7.2 The Board is asked to:
- **Discuss and provide a view** on whether the current statement of risk appetite remains fit for purpose
 - **Discuss and provide a view** on the suggested approach to reviewing FSS's risk appetite
 - **Discuss and provide views and direction** on the content and coverage of an updated statement of risk appetite

Please direct queries to:

Diane Strachan
Head of Private Office
diane.strachan@fss.scot

06 July 2020

ANNEX A

FSS Risk Appetite Statement

With regards to public health the Board has generally a low appetite for risk. This is because consumer protection and public health are at the core of what we do. Ensuring food is safe is our primary, non-negotiable, function and forms the basis of the trust consumers have in FSS. On public finance the Board has a low tolerance and would expect the Accountable Officer to apply the principles of sound financial management, managing within budget.


Clearly any organisation needs to think about its reputation and how an organisation is perceived is important. Perceptions will vary between different stakeholders but the trust of consumers is paramount. In this regard the Board's appetite for risk is medium tolerance. During Level 2, 3 & 4 incidents, the risk appetite for reputation should be low to align with the low tolerance risk appetite in relation to protection of public health.

Obviously, it is important that we work collaboratively and effectively but it is possible given the breadth of our remit that there are opportunities for disagreement. As our organisation is non-Ministerial, it is important that we retain and use that independence from Government wisely, taking account of, but not being wholly influenced by the views of others.

Given the current landscape and the challenges the organisation faces, the Board has a high tolerance for innovation and taking well managed and thought-through risks in areas such as piloting of new ideas, delivery models etc.

ANNEX B

FAIRER SCOTLAND DUTY SUMMARY – RISK APPETITE REVIEW

Title of Policy, Strategy, Programme etc	Risk appetite definition
Summary of aims and expected outcomes of strategy, proposal, programme or policy	To review FSS's existing risk appetite, and establish a clear definition, agreed by the Board, of the nature and extent of the principal risks that FSS is exposed to and is willing to take to achieve its objectives.
Summary of evidence	We know that poor diet exists across the population but the most deprived tend to have the poorest and most energy dense diets, and suffer the greatest burden of diet-related disease. ⁵
Summary of assessment findings	We considered whether FSS's risk appetite could have any impact in inequalities of outcome, and decided that we should recognise the unequal burden of diet-related problems by including specific reference to our risk appetite with respect to policies that had potential to reduce such inequality.
Sign off	Name:  Job title: Chief Executive

⁵ [https://www.foodstandards.gov.scot/downloads/Situation_report - the Scottish diet - it needs to change - 2018 update FINAL.pdf](https://www.foodstandards.gov.scot/downloads/Situation_report_-_the_Scottish_diet_-_it_needs_to_change_-_2018_update_FINAL.pdf)