Scottish Canals

Risk appetite and tolerance

Context for today's discussion

Scottish Canals

The Board, Audit and Risk Committee, Executive Management team and Corporate risk manager have different roles and responsibilities in the risk appetite creation and in ensuring the agreed upon risk appetite is adhered to.

Board	Ensuring that effective arrangements are in place to provide assurance on risk management, including: ❖ A risk management system which both identifies and, where feasible, seeks to mitigate risks to Scottish Canals' objectives; and ❖ Undertaking an annual assessment of Scottish Canals risk appetite statements and the effectiveness of the risk management system in respect of personnel, physical and cyber risks/threats/hazards, governance and internal control.
Audit and Risk Committee	❖ the strategic processes for risk, control and governance. ❖ the effectiveness of the internal control environment.
EMT	❖ Support risk management culture with values and a tone that ensures that risks are managed within acceptable limits ❖ Affirm risk appetite compliance in respective business areas.
Corporate risk manager, Heads of Service risk owners and project managers risk owners	❖ Develop a project plan for risk appetite creation, determining who will be involved and what data you will need. ❖ Work with senior management to articulate the risk appetite.

Aim of today's session

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"What are the business, regulatory or other factors that will influence the relative importance of the organisation's propensity to take risk and its propensity to exercise control at strategic, tactical and operational levels?

Institute or Risk Management, Risk Appetite and Tolerance Guidance Paper, 2011

❑ How willing are you to accept uncertain outcomes?

❑ When facing multiples options, how willing are you to select an option that puts an objective at risk?

❑ How willing are you to trade-off this objective, with achievement of other objectives?

Outcome 1 - Build a consensus around corporate risk appetite

Transform the canals	Excel at what we do	Create opportunities	Respond to global challenges
Assets, Customer Experience	Health and Safety, Compliance, Financial Resilience, People and Culture	Business Development, Commercial, Regeneration, Digital Technology	Environment

Outcome 2 – Understand our risk universe

Understanding all of the risks we might face (the "risk universe"), those that, if push comes to shove, we might just be able to put up with (the "risk tolerance") and those risks we actively wish to engage with (the "risk appetite").

Outcome 3 – Agree the SC Risk appetite and risk tolerance statements

Objective:	"Excel at what we do"
Corporate risk aversion for objective:	Averse/low risk appetite
Risk Appetite Category:	Financial resilience
Risk appetite parameters:	Over a one year horizon, we would not want a one in 10 year financial risk event to prevent us from achieving a year end zero balance

The Goal of effective risk management

Risk exposure vs risk appetite
Illustrative

Excessive caution
Potential underachievement of strategic objectives

Balanced risk taking
Risk taking in alignment with executive leadership's preferences

Excessive risk taking
Potential losses from unwanted risk exposures

Risk appetite
How much risk are we willing to accept?

Residual risk exposure
How much risk are we taking?

Risk Appetite Statement

1. Scottish Canals operates as a Non-Departmental Public Body ("NDPB") accountable to the Scottish Government.

   "Excelling in what we do to transform our canals with a commitment to innovation and entrepreneurship in implementing our strategic developments we will always be exposed to risk. Effective risk management increases the probability of successful outcomes, whilst protecting the reputation and sustainability of Scottish Canals." Catherine Topley, Scottish Canals Chief Executive and Accountable Officer, Risk Champion.

2. This Risk Appetite Statement (the Statement) specifies the amount of risk Scottish Canals is willing to accept in the pursuit of its strategic objectives, as set out within our 2020-2023 Corporate Plan, indicating the risk tolerance environment within which we will operate.

3. The Statement is used to embed the appropriate risk strategies, policies and procedures of Scottish Canals.

4. Responsibility for managing the day to day activities of Scottish Canals (and in this context, risk management), lies with the Chief Executive as Accountable Officer and through a process of delegation to Executive Directors, Heads of Service and managers. Additionally, risk management is embedded within the Terms of Reference of a number of internal executive Committees in accordance with our Corporate and Operational Governance Arrangements.

5. The Statement is subject to appropriate review by the Audit & Risk Committee and reviewed annually by the Board.

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Risk Appetite Statement

We undertake a range of activities and have set out our broad risk categories below with their individual risk appetite statements, definitions and what measures we use to actively manage performance against the appetite definitions as well as the overall statements.

	Assets	Commercial	Health and Safety	Compliance	Financial Resilience	Business Development
Statements	*As the custodian of Scotland's canals, we have a **very low risk appetite** for asset failure, and we use risk-based assessments to inform decision making on the management of our assets against available resources without compromising safety.*	***We are open** to undertaking 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***	*We must fully comply with our duties under the Health and Safety at Work Act. We will undertake activities that are considered safe to achieve objectives and which have a **low degree of inherent risk***	*We will deliver our statutory duties to the highest standards ensuring there is a **low degree of inherent risk.***	*We aim to reform how we take decisions to improve the public value and sustainability of our resources. We have a **low risk appetite** for making any decisions which are contrary to the guidance contained within the SPFM.*	***We are aiming** to grow our income streams to invest in our core business.*
Definitions	We will invest in the canal network to ensure a sustainable future, whereby our canals and historic monuments are maintained and available for use.	We will review all commercial activities and develop new ones with partners who share our values to maximise income and identify value-adding opportunities.	We will improve the efficiency and effectiveness of our operating models to reflect changing customer habits and constrained public finances.	We will overhaul and invest in compliance; policies, processes, monitoring and improvement systems.	We will comply with good practice as set out in the Scottish Public Finance Manual and Scottish Canals' Corporate and Operational Governance Arrangements. Our organisation wants to excel in what we do and is committed to innovation.	We will invest in digital services to make it easier to buy products and services online, improving business efficiency. We will grow sustainability the number of visitors and paying customers to our canals.
Measures*	✓ Performance against AMS/Plan ✓ Total transits on the canal ✓ Return on commercial property owned ✓ Return on Heritage property owned ✓ Return on moorings owned	✓ Number of new destinations opened ✓ Level of ROI on current commercial activities	✓ Performance against H&S Action Plan ✓ RIDDOR reportable incidents & accidents ✓ Accident Frequency Rate	✓ Production of statutory reports in required publication timescales ✓ Full review and implementation of all relevant policies in the financial year ✓ Completion of compliance monitoring of employee engagement with all relevant policies	✓ Delivery of budget to plan YTD ✓ Management fees earned ✓ Completion of annual accounts with supportive external validation / audit ✓ Return on commercial property owned ✓ Return on Heritage property owned ✓ Return on moorings owned ✓ ROI Joint Ventures ✓ Improved value / best value through increased controlled procurement / contracting activity ✓ Debt recovery success level	✓ Delivery improved efficiency and effectiveness of our operating model. ✓ Number of new ventures / initiatives undertaken ✓ Level of ROI on new business development activities ✓ Level of 3rd party funds attracted to fund new business development activities

* Full details of our measures for success are available online in our Corporate Plan 2020-2023 and Business Plan 2021-22

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	Digital Technology	Environment	Regeneration	Customer experience	People and Culture
Statements	*We are eager for digital solutions which help us to work smarter and drive change. We have a **very high-risk appetite** for exploring digital technology opportunities while ensuring benefits and risks are fully evaluated.*	*We understand how we can help to mitigate and adapt to climate change. We are **willing to accept a degree of risk** in order to maximise our green-spaces and enhance biodiversity. Particularly where the opportunity of significant gains has been identified. Inherent risk is deemed controllable to a large extent.*	***We are aiming** to promote and leverage the public value of our regeneration work domestically and internationally to create demand for tourism, investment and to deliver quality jobs.*	*We will take a customer focused approach and are **willing to accept a degree of risk** in the pursuit of customer excellence. Particularly where the opportunity of significant gains has been identified. Inherent risk is deemed controllable to a large extent.*	*We value our people working safely together in an innovative culture to realise their potential and promote equality, diversity and inclusion. We will take a cautious approach and are **willing to accept a degree of risk** for empowering and motivating people and driving cultural change.*
Definitions	We will continue to develop our Digital Transformation Strategy to enable us to improve our services, become more efficient and improve the way we engage with the public.	We will reprioritise investment and take part in projects which reduce greenhouse gas emissions, encourage waste reduction, re-use and recycling behaviours and includes renewable energy projects.	We will use our experience of combining public sector innovation, commercial trading and strong values to help other bodies benefit themselves.	We will develop plans to improve the customer experience across the business, monitoring feedback and ensuring we are recognised for customer excellence.	We will continue to innovate new ways of working, building on what works to make other changes through regular engagement with our workforce, customers and other interested parties to understand and improve the way we support people.
Measures*	✓ Performance against ICT Plan ✓ Digital change programme ✓ Volume of traffic moved to digital bookings, payments ✓ Volume of customer queries which are addressed through digital FAQ's (reduction in email / telephone enquiries) ✓ Number of internal users fully digitally enabled ✓ Number of processes fully automated / integrated ✓ Reduction in headcount	✓ Performance against Annual Environment Action Plan ✓ Carbon footprint reduction ✓ Contribution to climate emergency ✓ Level of budget assigned to Environmental priorities ✓ Scientific results of projects such as non-native fern reduction in canals ✓ Number of renewable energy projects	✓ Community engagement & usage - regeneration (no of people) ✓ Income generating added value (regeneration) ✓ Delivering an Investment Strategy which showcases commercial opportunities and promotes regeneration projects ✓ Deliver our new guide "Open for Business" to encourage more third sector collaborations. ✓ Level of 3rd party funds attracted to fund regeneration activities	✓ Deliver Customer Relationship Management tool ✓ Performance against Marketing & Communications Action Plan ✓ Establish and deliver customer strategy and associated action plan ✓ Customer satisfaction scores ✓ Levels of complaints ✓ Number of repeating / long term customers ✓ External awards	✓ Performance against People Strategy ✓ Delivery of Job evaluation ✓ Implementation of modern pay & grading structures ✓ Delivery of underpinning performance management system, directly linked to competency framework ✓ Delivery of training programmes which support delivery against agreed business needs

* Full details of our measures for success are available online in our Corporate Plan 2020-2023 and Business Plan 2021-22

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Risk Appetite Statement

	Risk Appetite behaviours				
	1 – Very Low/Averse	**5 – Low/Minimalist**	**10- Medium/Cautious**	**25 – High/Open**	**50 Very High/Hungry**
Assets	Catastrophic loss or reduction in quality of assets or catastrophic failure of key supplier	Significant failure in service levels. Project & grant requirements not achieved. Quality specifications not met or significant disruption to key supply chain	Moderate fall in service levels. Project & grant delays. Quality requirements partly met. Or limited disruption to key supply chain.	Small fall in service levels, some minor quality standards not met. Or minor disruption to supply chain	Some service interruption but can be made up without customers becoming adversely impacted. No supply chain disruption.
Commercial	Loss of more than 15% of Turnover.	Loss of more than 6% Turnover	Loss of more than 2.5% Turnover	Loss of more than 1% Turnover	< £10,000
Health and Safety	Incidents of death or major permanent incapacity, widespread disease outbreak.	A number of major injuries, or long-term incapacity / disability, localised disease outbreak.	Single major injury, or long-term incapacity / disability	Major injury requiring medical attention and/or causing >3days absence (i.e. RIDDOR reportable)	Minor injury or illness, first aid treatment needed.
Compliance	Play safe, avoid anything which could be challenged, even unsuccessfully	Want to be very sure we would win any challenge. Similar situations elsewhere have not breached compliances.	Limited tolerance for sticking our neck out. Want to be reasonably sure we would win any challenge.	Challenge would be problematic, but we are likely to win it and the gain will outweigh the adverse consequences.	Chances of losing any challenge are real and consequences would be significant. A win would be a great coup
Financial Resilience	Avoidance of financial loss is a key objective. We are only willing to accept the low cost option as VfM is the primary concern.	Only prepared to accept the possibility of very limited financial loss if essential. VfM is the primary concern.	Prepared to accept possibility of some limited financial loss. VfM still the primary concern but willing to consider other benefits or constraints. Resources generally restricted to existing commitments.	Prepared to invest for return and minimise the possibility of financial loss by managing the risks to a tolerable level. Value and benefits considered (not just cheapest price). Resources allocated in order to capitalise on opportunities	Investing for the best possible return and accept the possibility of financial loss (with controls may in place). Resources allocated without firm guarantee of return – 'investment capital' type approach.
Business Development	Barely noticeable scope change	Minor scope change	Major scope change	Not acceptable to the customer	Extremely high scope change
Digital Technology	Defensive approach too objectives – aim to maintain or protect, rather than to create or innovate. Priority for tight management controls and oversight with limited devolved decision taking authority. General avoidance of systems/technology developments.	Innovations always avoided unless essential or commonplace elsewhere. Decision making authority held by senior management. Only essential systems / technology developments to protect current operations.	Tendency to stick to the status quo, innovations in practice avoided unless necessary. Decision making authority generally held by senior management. Systems / technology developments limited to improvements to protection of current operations.	Innovation supported, with demonstration of commensurate improvements in management control. Systems / technology developments used routinely to enable operational delivery Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to 'break the mould' and challenge current working practices. New technologies viewed as a key enabler of operational delivery. High levels of devolved authority – management by trust rather than tight control.
Environment	Minor level risks with little consequence but not to be overlooked completely. They are enough of a risk to have been assessed through the process, but unlikely to prevent the achievement of objectives	These are low level risks that could impede or hinder achievement of objectives. Due to the relative low level it is unlikely that additional controls will be identified to respond to the risk	These risks sit on the borders of our risk appetite and so while they don't pose an immediate threat, they are still risks that should remain under review. If the impact or likelihood increases, then risk owners should seek to manage the increase	These risks are within the upper limit of risk appetite. While these risks can be tolerated, controls should be identified to bring the risk down to a more manageable level where possible.	Risks at this level sit above our tolerance and are of such magnitude that they form our biggest risks. We are not willing to take risks at this level and action should be taken immediately to manage the risk.
Regeneration	Inability to meet a minor acceptance criterion	Inability to meet more than one minor acceptance criteria	Failure to meet more than three acceptance criteria	Significant failure in meeting acceptance criteria	High failure to meet acceptance criteria
Customer Experience	No tolerance for any decisions that could lead to scrutiny of, or indeed attention to, the organisation. External interest in the organisation viewed with concern.	Tolerance for risk taking limited to those events where there is no chance of any significant repercussion for the organisation. Senior management distance themselves from chance of exposure to attention.	Tolerance for risk taking limited to those events where there is little chance of any significant repercussion for the organisation should there be a failure. Mitigations in place for any undue interest.	Appetite to take decisions with potential to expose the organisation to additional scrutiny/interest. Prospective management of organisation's reputation.	Willingness to take decisions that are likely to bring scrutiny of the organisation but where potential benefits outweigh the risks. New ideas seen as potentially enhancing reputation of organisation.
People and culture	Avoidance of risk and uncertainty is a Key Organisational objective	(ALARP) (as little as reasonably possible) Preference for ultra-safe delivery options that have a low degree of inherent risk and only for limited reward potential	Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward.	Willing to consider all potential delivery options and choose while also providing an acceptable level of reward (and VfM)	Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk).