



Risk management: statement of SFC's risk appetite

Purpose

1. The purpose of this paper is to invite comments on the development of a statement of risk appetite for the Scottish Funding Council (SFC).

What is risk appetite?

2. It is good practice in risk management for organisations to consider and develop a 'risk appetite'. Risk appetite asks "how much, and what sort of risk is the organisation willing to take?"
3. Risk appetite is different to risk tolerance. Risk tolerance is concerned with the boundaries of risk – the minimum or maximum level of risk that an organisation is willing to tolerate
4. Risk appetite expresses the Board's attitude to risk and informs the organisation's decision-making and the implementation of its strategies and functions.
5. Our appetite for taking risk is fundamental to how we conduct our business, and to our relationships with the Scottish Government and our stakeholders. It is the responsibility of the Board to set the direction and steer a course, where appetite for risk-taking is clearly communicated to the executive and others.

Defining and expressing risk appetite?

6. The level of risk appetite for any organisation will depend on the nature of the work undertaken and the particular objectives. For example, where public safety is concerned – such as operating a nuclear power station – risk appetite will be low, while launching a new business product with significant, potential commercial benefit, the risk appetite might be high.
7. Risk appetite is normally expressed in the form of a 'statement' expressing the level of risk that an organisation is willing to take and the types of risk – and will usually recognise that the level and type of risk may vary across the organisation.

8. Risk appetite is usually defined in one of two ways:
 - In relation to an organisation's core functions or strategic objectives – in other words, what it is trying to do or achieve.
 - In relation to the types of risk it faces – such as reputational, financial, regulatory, strategic, operational, and internal (including internal systems).
9. It is important to bear in mind that risk appetite will not remain static and will change over time, depending on the context.

What is SFC's risk appetite?

10. The executive have undertaken an initial assessment of SFC's risk appetite in relation to the following organisational functions:
 - Core funding of colleges and universities and the achievement of student number targets.
 - Strategic funding of colleges and universities.
 - Promoting financial sustainability and high standards of governance in the college and university sectors.
 - Achievement of our Strategic Plan objectives through the use of Outcome Agreements.
 - Working in partnership with other bodies and agencies to achieve SFC and Scottish Government objectives.
 - Providing advice to Scottish Government and others.
 - Managing SFC's reputation and communicating.
 - Managing SFC's internal functions – including the management of its organisational budget, staff, accommodation, IT services, and its compliance with legislation and regulation.
11. For each function, we have undertaken an assessment of our risk appetite using a six-point scale: *Avoid/ Averse/ Cautious/ Moderate/ Open/ Hungry*. A table with definitions of each point on the scale is provided in the attached Annex. These definitions are based on guidance developed by HM Treasury for public bodies.
12. The executive's assessment is shown in the chart below.

Function and Risk Appetite	Avoid	Averse	Cautious	Moderate	Open	Hungry
Core funding and student number targets	█					
Strategic funding of colleges and universities				█		
Financial sustainability and governance	█					
Use of Outcome Agreements					█	
Working in partnership				█		
Providing advice to Scottish Government				█		
Managing SFC's reputation and communications		█				
Managing SFC's internal functions	█					

SFC's risk appetite

13. Using the assessment above, the executive has drafted the following statement of SFC's risk appetite:

“The Scottish Funding Council (SFC) recognises that it must take risks if it is to achieve fully its Strategic Plan aims and deliver these effectively. However, it will always approach risk in a controlled manner, reducing its exposure in a way deemed acceptable to the Board, the Scottish Government, and external regulators such as Audit Scotland.

SFC's appetite for risk will vary depending on the functions of the organisation, the context, and the anticipated benefits.

In relation to its core funding of colleges and universities, and its regulatory role, it will seek to minimise the risks to SFC and to institutions, particularly where these may pose a threat to the financial sustainability of colleges and universities, or where they may create significant instability or uncertainty in the sectors.

In its negotiation of Outcome Agreements, its use of strategic funding, and its work with other partners and stakeholders, the organisation is willing to accept a higher level of risk where it identifies opportunities to achieve highly successful outcomes for SFC and the Scottish Government.

In its internal management and functions, SFC will avoid any activity that poses a threat to its budgeting, the health, safety and well-being of staff, or its ability to meet all legislative and regulatory requirements. While

always striving to protect its reputation, SFC will nevertheless accept a moderate level of risk if it allows it to communicate its role, objectives, and achievements more successfully.”

What next?

14. The Council executive will review the outcomes of this discussion and include the approved statement of risk appetite in SFC’s Risk Management Strategy, and use it to inform our decision-making and strategy development.

Recommendation

15. The Board is invited to **approve** the above statement of risk appetite for SFC.

Publication

16. This paper and Annex will be published on the Council website. The Risk Register is withheld from publication on the Council website under the Freedom of Information (Scotland) Act 2002 (Section 30: Prejudicial to the effective conduct of public affairs).

Further information

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Risk appetite: six-point scale

	Classification	Description
1.	AVOID	No appetite for risk. The organisation is not prepared to accept any risks.
2.	AVERSE	Prepared to accept only the very lowest levels of risk, with the preference being for very safe decision-making and strategy implementation, while recognising there may be little opportunity for innovation or the exploitation of new opportunities.
3.	CAUTIOUS	Willing to accept some low risks, while maintaining an overall preference for safe decision-making and strategy implementation, despite the probability that there is restricted potential for innovation and increased outcomes and benefits.
4.	MODERATE	Tending predominantly towards exposure to only modest levels of risk in order to achieve acceptable, but possibly unambitious outcomes or benefits.
5.	OPEN	Prepared to consider innovative decisions and strategic implementation, and selecting those with the highest probability of productive outcomes and benefits, even where there are elevated levels of associated risk.
6.	HUNGRY	Proactively taking innovative/creative/pioneering decisions and adopting forms of strategic implementation, while accepting the associated substantial risk levels in order to secure highly successful outcomes and benefits.