

RISK MANAGEMENT FRAMEWORK

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1. **RISK MANAGEMENT STRATEGY**

All organisations face risks. As a provider of Higher Education, an Exempt Charity and Company Limited by Guarantee, Central is no different. Accountable, active and robust processes for the identification, management and reporting of risks are an important aspect of good governance. “Strategic Risks” are possible occurrences which would, through their impact, inhibit Central’s ability to effectively deliver its organisational aims and mission. Central’s mission as outlined in the Strategic Plan to 2023 is:

*“To inspire, educate and train the performers, practitioners and change-makers of tomorrow to shape the future of theatre and the performing arts.”*

Central’s mission is underpinned by key values, which are “*respecting; enquiring; innovating, and sharing*”.

Given the uncertainties faced by institutions, it is also helpful to identify and address operational risks as an integral part of normal operations. All staff should contribute to risk management processes within a culture of open, positive and blame-free discussion**.** Risk management is a continual and on-going process as risks and the framework of business controls through which they are mitigated and managed will change over time**.** Reasons for adopting risk management procedures include that:

* 1. effective risk management is good practice and improves the way Central is run;
  2. regular conversation around risks helps heads of departments and risk managers to focus on key priorities, avoid problems and to plan more effectively;
  3. an understanding of risks help in the development of strategies, mitigations and operational plans; and
  4. regular reporting by heads of departments and risk managers helps senior managers and the Governing Body to understand problems and to make appropriate contingency plans or other appropriate financial or resource provision where it is deemed essential to meet key institutional objectives.

The procedures for managing risk at Central are set out below and informed by the Governing Body’s approved risk appetite and tolerance levels.

1. **THE RISK MANAGEMENT STRATEGY IS**
   1. conditioned by the School’s Mission and Strategic Aims;
   2. contained by the Board of Governors’ statement of risk tolerance and appetite;
   3. informed by:
      * the need to secure and maintain sustainability and financial solvency whilst ensuring the continuous and effective operation of the School, and
      * the need to demonstrate compliance with regulation through formal and informal scrutiny;
   4. and managed in accordance with the scheme of delegation outlined in Central’s Corporate Governance Framework (*electronic copy available on request from the Governance Office*).
2. **RISK TOLERANCE AND APPETITE**

The Governing Body holds responsibility for determining the nature and extent of risks it is willing to take, and accepts that certain activities may inevitably increase the School’s exposure to risk in the furtherance of its key strategic aims. As outlined in this *Risk Strategy and Policy*, the likelihood of risks materialising should be continually managed through a sound and robust system of internal controls. Innovation, progress, success and the ability to keep pace with peer providers should not be stifled by an attitude which is totally averse to an acceptable level of risk exposure. As such, the Governing Body has broadly outlined its agreed **tolerances** and **appetite** in relation to strategic risks. In so doing, the Governing Body has given due regard to guidance from the *Institute of Risk Management*.

In general terms and having regard to the need to protect our students, the Governing Body is averse to any course of action which would likely result in **undermining a financial position** considered by the Finance and Estates Committee to be both **sustainable** and **responsive to need**. In the pursuit of its strategic aims, Central will generally tolerate a level of risk deemed proportionate by the Governing Body to the expected benefits of the proposed action to be taken, with due consideration to the likelihood and impact of the risk arising given the mitigating actions and control measures in place. A number of “upper thresholds” broadly define Central’s risk tolerance levels (*ie the levels of ongoing risk the organisation cannot deal with*).

The Governing Body **will not tolerate**:

1. Any activity or course of action resulting in a breach of bank covenants unless an agreed waiver is in place (*relating to Strategic Risk 8 within the current register*);
2. Any activity or course of action resulting in a determination by the appointed external auditors that Central’s financial position does not represent a going concern and is therefore not sustainable (*relating to Strategic Risk 8 within the current register*);
3. Any course of action likely to result in a catastrophic reduction in income (including grant income);
4. Activities which would expose Central to significant reputational risk calling into question the School as an equitable, safe and inclusive environment (*relating to Strategic Risk 1 within the current register*);
5. Any action which would likely result in regulatory sanction or penalty, or rescind Central’s status as a registered provider of Higher Education with the Office for Students on the basis of compliance with its ongoing conditions of registration (*relating to Strategic Risk 11 within the current register*);
6. Any course of action considered to prevent, significantly hinder or undermine Central’s pursuit of the furtherance of its agreed key strategic aims;
7. Any course of action likely to expose the School to the risk of not delivering, as its primary activity, the objects for which it is established under its Articles of Association; and
8. Any course of action which would result in the increased likelihood of exposure to a risk which could be catastrophic for the School and where business controls outlined in the *Strategic Risk Register* are not sufficient (in the view of the Governing Body) to prevent the risk from materialising or to contain its impact.

As such, the Governing Body seeks to take a reasoned, contextualised approach to acceptable risk exposure in line with assurances it receives around the School’s system of internal controls and mitigating measures as detailed elsewhere in this Strategy and Policy. The Register of the Management of Strategic Risks, through its residual risk assessment scores, presents the likelihood of exposure for each identified risk on an ongoing case-by-case basis. **Where Central is not exposed by its activities or actions to any of the “upper thresholds” detailed in points 1-8 above, strategic risks are considered tolerable** on the basis that adequate assurances are received via the Strategic Risk Register around the effectiveness of control measures in place.

The Governing Body has also defined in broad terms its **Risk Appetite** - namely the acceptable level of risk it is willing to accept in pursuit of its strategic aims in the period to 2023. The acceptable level of risk that Central is willing to take will be reflected on as necessary by the Governing Body and the Executive Management Group. Subject to Governing Body approval and the exercise of delegated authority by the Finance and Estates Committee as appropriate, there is presently

**appetite for considered financial investment** from both within recurrent funding streams and existing unrestricted cash holdings where this does not result in action outside of the defined tolerances above, or contrary to approved financial performance targets. In this respect, Central seeks to *maintain liquid holdings sufficient to manage working capital requirements and to cover for unforeseen contingencies*.

Investment in the current Strategic Planning cycle should focus on the following areas:

* + Improvements to the estate;
  + The integration of data systems and upgrading digital infrastructure; and
  + Curricular innovation.

It is recognised that underinvestment on the basis of aversion to financial risk can result in other risks materialising (*for example those linked to reputation, student experience and staff capacity*); however Central also maintains an obligation to use money from public sources prudently and responsibly.

It is also recognised that risk appetite is not limited to the financial. The Governing Body has defined several key objectives in the pursuit of which **it has a higher appetite to accept exposure to risks** of multiple varieties on a case-by-case basis in the period to 2023. These include:

* + Furtherance of Central’s focus on civic work and community engagement;
  + Increased awareness of Central’s distinctiveness, culture and ethos; and
  + Diversification of income streams to support future ongoing sustainability.

Central generally has a **low appetite for, and seeks to minimise exposure to** risks which could impact progress and the achievement of its aims relating to:

* + Equity and Inclusion;
  + The provision of teaching and learning activity;
  + Research and knowledge exchange; and
  + The health and safety of its community.

It is recognised that no risk appetite is static; the Governing Body will be prepared to accept varying amounts of risk dependent on circumstance and context.

**Risk Appetite summary table:**

|  |  |
| --- | --- |
| **Risk Appetite determination** | **Activity** |
| **Intolerable Exposure to risks is unacceptable**  *“The Governing Body will not tolerate exposure to the following risks…”* | * Financial sustainability, bank covenants, going concern * Compliance with Articles of Association * Significant reputational risk on the basis of inclusion * Incurrence of regulatory sanction or penalty * Loss of registration with HE regulator |
| **Averse**  **Exposure only to very low levels of risk**  *“The Governing Body is averse to exposure to risks to…”* | * Maintaining Central’s reputation as inclusive, equitable, safe * Income streams including grant income * Regulatory compliance * Maintaining staff and student wellbeing * Continued provision of the range of learning and teaching opportunities * Maintenance of academic quality and standards * Health and safety |

|  |  |
| --- | --- |
| **Open**  **A balanced exposure to middle- ground risks**  *“The Governing Body is open to limited risk exposure in the pursuit of…”* | * Change management * Developing people, culture and ethos * Developments to the learning and teaching environment * Departmental structuring |
| **Substantial appetite Pioneering, creative, elevated levels of risk exposure**  *“The Governing Body accepts that elevated levels of risk exposure will be necessary in the pursuance of key strategic activities, including…”* | * Financial investment: estate, integrated data systems, infrastructure * Curricular innovation * Developing knowledge exchange * Diversification of income streams * Improving student experience * Furtherance of civic work and community engagement * Distinctiveness |

1. **RISK MANAGEMENT POLICY**

**This Risk Management Policy sets out**:

* 1. The underlying approach to risk management;
  2. The role of the Governing Body;
  3. The role of the Executive Management Group (EMG) as Strategic Risk Owners;
  4. The role of Risk Managers (normally Heads of Department) regarding departmental risks;
  5. Risk Management as part of the system of internal control;
  6. Processes for annual review of effectiveness; and
  7. Implementation of Risk Management process, roles and responsibilities

*The Executive Management Group (EMG) will:*

1. undertake a formal annual review which will identify key risks facing the institution; identify levels of assurance set against identified strategic risks; assign Risk Owners from within the executive group and set out the business controls in place and planned actions to mitigate/reduce/manage the risk and monitoring arrangements (usually June);
2. review and update the Strategic Risk Register on a regular basis; and
3. undertake a biannual review of departmental risk registers.

*Members of EMG will:*

1. report any perceived new/changed significant risk or failure of existing control mechanisms immediately on discovery to the Principal/CEO and Clerk to Governors (those with risk assessment scores of 12-25); and
2. Take responsibility for providing updates on risks in their areas via the Strategic Risk Register.

*The Deputy Principal/Clerk to Governors will:*

1. notify, upon discovery, the Chair of Governors and the Chairs of the Finance and Estates Committee and the Audit Committee of any new/changed risk or failure of existing controls in respect of significant strategic risks (those with risk assessment scores of 12-25); and
2. ensure that formal risk management guidance is provided to Risk Managers.

*Risk Managers* who are normally Heads of Department or other senior staff assigned to manage specific areas of activity or projects will:

1. have primary responsibility for actively managing risks within their area of responsibility on a day-to-day basis – this includes consideration in relation to resource and activity planning;
2. maintain a departmental risk register (on the form provided for that purpose) which is linked to departmental, project or service line aims and objectives;
3. promote risk awareness within their operations;
4. ensure that any identified risks are properly discussed with other relevant heads of department as appropriate;
5. ensure that risks are regularly discussed at departmental, team or project meetings (at least monthly) and ensure that the risk management discussions are formally documented and risk registers updated accordingly;
6. maintain a log of risk register changes on the form provided for that purpose;
7. report systematically and promptly to the Deputy Principal or Vice-Principals any perceived new/changed high risks or failures in existing control mechanisms (those with risk assessment scores of 12-25);
8. provide updated operational risk registers to the Executive Management Group for monitoring on a biannual basis; and
9. provide regular reports to the Executive Management Group and an annual report on the effectiveness of business controls in place to manage risk items under their management control.

The Risk Evaluation Guidance is provided to Risk Managers.

*Finance and Estates Committee will:*

1. review the Strategic Risk Register on an annual basis and provide appropriate advice to the Board (usually June); and
2. keep under termly review strategic risks items with a finance or estates impact and with a risk assessment score of 12-25.

*Human Resources Committee will:*

1. *annually review the items on the Strategic Risk register with an impact on human resources and provide appropriate advice to the Board (usually June); and*
2. *keep under regular review strategic risk items with a human resources impact and with a score of 12-25 (each meeting)*

*Audit Committee will:*

1. review the effectiveness of business controls to mitigate/reduce risks (usually June);
2. set the priorities for the Internal Audit Programmes for the year ahead based on an assessment of key business risks (usually June);
3. review the Register of the Management of Significant Strategic Risks and Log of Changes at each meeting; and
4. review the Risk Management Policy and Strategy, the Strategic Risk Register and the Executive Management Group report on Risk Assurance annually (usually at the June meeting).

*Internal Audit* will:

1. provide an annual report on the control environment and the reliance that can be placed on it by the Governing Body.

*The Governing Body* will:

1. receive termly reports from the Finance and Estates, Human Resources and Audit Committees on the management of key significant strategic risks (usually November, May, July);
2. undertake an annual review of the Strategic Risk Register following advice from the Finance and Estates, Human Resources and Audit Committees; and
3. agree on annual statement to confirm the on-going process for identifying, evaluation and managing risks.
4. **RISK EVALUATION GUIDANCE**

Identified strategic risks should be entered on the **Strategic Risk Register**. The Risk Register is aligned with the key themes of the approved Strategic Plan. Each risk should be linked to either an institutional, departmental, service or project aim and should include:

* a brief description of the risk; the probability of the risk occurring noting the mitigations and management controls in place to manage the risk, based on the 1-5 scale, the impact of the risk if it occurred based on the 1-5 scale. As a general guide:
  + high impact (4-5) means a severe or extreme impact on Central’s public reputation, staff or operations or where there is likely to be an adverse financial impact on Central’s turnover or additional costs of £250k or more;
  + medium impact (2-3) means a significant but manageable impact on Central’s reputation, staff or operations or where there is likely to be an adverse financial impact on Central’s turnover above £25k but below £250k;
  + low impact (1) means a marginal and manageable impact on Central’s reputation, staff or operations or where there is likely to be an adverse financial impact on Central’s turnover or additional costs of below £25k.
* Inherent risk assessment scores based on the table in Paragraph 6 below on the 5 x 5 scale (ie the probability and impact scores based on the risk occurring before any mitigations or control measures are taken into account);
* the name of the executive risk owner;
* A record of which School committee takes oversight of each risk;
* An assessment of the connectedness of the risk with other identified risks;
* Controls in place to manage risks; sources of assurance, identified gaps in controls and planned actions to mitigate gaps in controls;
* The name of the officer (by role title) responsible for planned actions to mitigate controls and the due date for actions;
* Residual risk assessment scores based on the table in Paragraph 6 below on the 5 x 5 scale which reflect the control and mitigation environment for that risk; and
* The determination of the Executive Management Group whether controls in place are adequate.

The highest level risks (scores 20-25) are highlighted in red on the register. High risks should be notified to the Deputy Principal / Principal immediately upon discovery. High risks should be constantly monitored and reviewed on at least monthly basis;

Risk assessment scores of 5-16 are deemed to be medium risks which should be reviewed not less than quarterly; and

Risk assessment scores of 1-4 are deemed to be low level risks. These risks should not need much attention but should be reviewed at least annually.

Changes to the Risk Register should be recorded on the Log of Risk Register Changes.

The Register of Strategic Risks is reviewed by the Audit Committee at each meeting and the Governing Body. Regular review of the strategic register is undertaken by the Executive Management Group.

**Departmental risk registers** are also maintained by each key function of the School and reflect operational risks within each area. Departmental registers identify risks and mitigating actions alongside an inherent and residual score for each risk. Risk impact scores for the departmental registers should reference the below:

* high impact (4-5) means a severe or extreme impact on Central’s public reputation, staff or operations or where there is likely to be an adverse financial impact on Central’s turnover or additional costs of £50k or more;
* medium impact (2-3) means a significant but manageable impact on Central’s reputation, staff or operations or where there is likely to be an adverse financial impact on Central’s turnover above £5k but below £50k;
* low impact (1) means a marginal and manageable impact on Central’s reputation, staff or operations or where there is likely to be an adverse financial impact on Central’s turnover or additional costs of below £5k.

1. **STRATEGIC RISK ASSESSMENT SCORE MATRIX**

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | (**Impact** on Central / finances) |
| **Impact** | 5 | 5 | 10 | 15 | 20 | 25 | < | Severe /  £500k+ |
| 4 | 4 | 8 | 12 | 16 | 20 | < | Significant  £250k-  £499k |
| 3 | 3 | 6 | 9 | 12 | 15 | < | Moderate /  £75k-£249k |
| 2 | 2 | 4 | 6 | 8 | 10 | < | Minor £26k-  £74k |
| 1 | 1 | 2 | 3 | 4 | 5 | < | Marginal /  <£25k |
|  | 1 | 2 | 3 | 4 | 5 |  | |
|  | **Probability** | | | | | |
|  |  | ^ | ^ | ^ | ^ | ^ |  |  |
|  | **PROB- ABILITY** | Unlikely or <20% | 21-34%  chance | 35-50%  chance | 51-74%  chance | >75%  chance |  | |

|  |  |
| --- | --- |
| **Connectedness of Risks scoring** | |
| 3 | Risk is inherently connected to multiple other risks both within and outside the domain or strategy area |
| 2 | Risk is inherently connected to one or more other risks in the same domain or strategy area |
| 1 | Risk exists primarily in isolation |

**END.**