

Board of Management

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| Subject of Paper | Risk Management Policy Review |
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| Primary Contact | Paul Clark, College Secretary/Planning |
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| Action | For Noting |

1. Recommendations

1. To note the revised Risk Management Policy as approved by the Audit Committee (28/11/16).

2. Purpose of Report

2.1 The purpose of this paper is to provide the Board of Management with the significant revision of the College's Risk Management Policy, as approved by the Audit Committee, with guidance to the principal changes therein.

3. Context

3.1 Risk Management is a key component of the College's internal control and governance arrangements, and as such is an important responsibility of the Senior Management Team and the Board of Management.

3.2 The significant change to the Risk Management Policy comprises a more comprehensive outline of the College's approach to risk, including reference to "risk tolerance". This is in recognition of the College's need for greater flexibility and analysis of risk, as the College looks to address the new Strategic Priority 8: "To secure our diversity of income and remain competitive", and also Strategic Priority 6: "To be efficient, effective, innovative, and vigilant" - in particular the "innovation" element.

3.3 The definitions, and distinction between risk appetite and risk tolerance are provided, and is essentially encapsulated in the reference from the Institute of Risk Management: "While risk appetite is about the pursuit of risk, risk tolerance is about what an organisation can actually cope with."¹ The Risk Management Society (RIMS) report on Risk Appetite and Risk Tolerance has also been referenced in the revised Policy. (In short "willing" and "able" respectively.)

3.4 The categories of tolerance are provided, recognizing that the College will be less tolerant of risk in some categories (e.g. Reputation, Compliance, Business Continuity) than others (e.g. Major Change and Development Activities). The diagram provided in the policy illustrates the difference in tolerance between each of 8 categories.

3.5 The categories are broadly aligned with those set out in GCRB risk documentation, which was, in turn, originally drawn from the College's own Risk Management Policy and Procedure.

3.6 Note that the Board Audit Committee has agreed that a 5x5 matrix is extended to all of the Colleges Strategic Risks for session 2016-17. The latest revision of Risk Management Action Plans (Risk MAPs) includes proposed risk scores based on this new matrix.

¹ <https://www.theirm.org/knowledge-and-resources/thought-leadership/risk-appetite-and-tolerance/>

3.7 This revision has been endorsed by SMT.

4. Impact and Implications

4.1 The effective management and control of risks is essential to the on-going stability and future growth of the College, with clear implications in terms of potential impact upon College students and staff, as well as the College's wider reputation. All strategic risks have a potential strategic impact upon the College and the achievement of all eight strategic priorities. The College Risk Register includes matters relating to legal compliance, and financial sustainability.

4.2 The revised Policy now distinguishes between the acceptable levels of tolerance which the College has for different areas such as legal compliance, reputation, and business continuity (no tolerance) and development or change activity (variable tolerance).

Appendix:

Risk Management Policy (V2.1)



Risk Management Policy

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Risk Management Policy

1. Introduction

1.1 This Risk Management Policy and the associated Risk Management Procedure form part of the College's internal control and corporate governance arrangements. The College's approach to risk management is inclusive, reflecting the College's key value of Integrity, Honesty, and Transparency.

2. Purpose and Aims

2.1 The Policy explains the College's underlying approach to risk management, and documents the roles and responsibilities of the Board of Management and the Executive Leadership Team, in developing a culture of risk management throughout the College.

2.2 The associated Risk Management Procedure document outlines the key aspects of the risk management process, and identifies the main reporting procedures. In addition, it describes the process the Board of Management will use to evaluate the effectiveness of the College's internal control procedures.

3. Scope

3.1 This policy applies to all College activities, and at all levels within the organisation. While the identification and management of risk is seen as a key responsibility of the College Board of Management, the Executive Leadership and Senior Management Teams, managers at all levels within the College are encouraged to consult with staff in identifying risks to the College. The escalation route for risk identification is outlined in the College's Risk Management Guidance document.

4. Policy Statement

4.1 Key Principles

The following key principles outline the College's approach to risk management and internal control:

- 4.1.1 The Board of Management has responsibility for overseeing risk management within the College as a whole. Regular monitoring of Risk is undertaken by the Board Audit Committee;
- 4.1.2 The College adopts an open and receptive approach to risk identification and management;
- 4.1.3 The Principal and the Executive Leadership Team supports, advises and implements policies and strategies approved by the Board of Management;
- 4.1.4 The College makes conservative and prudent recognition and disclosure of the financial and non-financial implications of risks;
- 4.1.5 Senior managers are responsible for encouraging good risk management practice within their areas of responsibility;
- 4.1.6 Senior Managers, and those responsible for reviewing risks take into account the possibility of the differential impact of risks, and risk treatments, upon people who share protected characteristics¹.
- 4.1.6 Key risk indicators will be identified and closely monitored on a regular basis.
- 4.1.7 The College would, in general, seek to treat risks with the potential of negative impact prudently. However the Board of Management and Executive Leadership Team (ELT) recognises the possibility of positive outcomes in the treatment of risks, and accordingly will be careful to evaluate each risk individually. "Risk Appetite" and "Risk Tolerance" will be determined by the Board with guidance from ELT. (See 7.1.1 below).

¹ <http://www.equalityhumanrights.com/advice-and-guidance/new-equality-act-guidance/protected-characteristics-definitions/>

5. Definitions

5.1 HM Treasury defines “Risk” thus:

“Risk is defined as this uncertainty of outcome, whether positive opportunity or negative threat, of actions and events. The risk has to be assessed in respect of the combination of the likelihood of something happening, and the impact which arises if it does actually happen”². Risk Management in the context of the City of Glasgow College will focus upon those uncertain events, which would, if they occurred, result in a negative impact on the operation and objectives of the College.³ This is the definition of risk understood in all College documents relating to Risk Management.

5.2 BS 31100:2008 defines Risk Appetite and Risk Tolerance⁴ thus:

Risk Appetite - “the amount and type of risk that an organisation is prepared to seek, accept...”.

Risk Tolerance – “the organisation’s readiness to bear the risk, after risk treatments, in order to achieve its objectives”.

In broad terms, appetite relates to the willingness to seek potential benefits, while tolerance sets limits on acceptable loss in pursuit of these benefits, with reference to the organisation’s strength and resilience. The Institute of Risk Management states that: “While risk appetite is about the pursuit of risk, risk tolerance is about what an organisation can actually cope with.”⁵ In short, the terms relate to whether an organisation is respectively “willing” and “able” to take the risk, or sustain the potential consequences of the risk.

These are the definitions of the respective terms understood in all College documents relating to Risk Management.

² HM Treasury Orange Book

³It should be noted, however, that the opportunity for a positive outcome should not be overlooked in the management of risks.

⁴ Ref: RIMS (Risk Management Society) Executive Report: Exploring Risk Appetite and Risk Tolerance; 2012.

⁵ <https://www.theirm.org/knowledge-and-resources/thought-leadership/risk-appetite-and-tolerance/>

6. Risk Tolerance

6.1 The College's approach is to minimise its exposure to reputational, compliance, and financial risk, whilst accepting and encouraging an increased degree of risk in pursuit of its mission and objectives. In the case of certain risks there is no clear strategic benefit from accepting them, e.g. risks associated with unethical, illegal, or inappropriate actions, while some other risks are not inherently undesirable, e.g. where economic gain and/or student benefit might reasonably be expected⁶. The College therefore recognises that its appetite and tolerance for risk vary according to the activity undertaken, and that the College's acceptance of risk is always subject to ensuring that potential benefits and risks are fully understood before developments are authorised, and that appropriate measures to mitigate risk are established.

The College's position with regard to risk across eight categories is described below in a series of statements for each category, and the risk tolerance for each category is set utilising a tolerance scale of 1 to 6. (Low to High).

6.2 Reputation – It is regarded as critical that the College preserves its good reputation. The College has a low level of acceptance of such risk, given the difficulty of rectifying reputational damage. The College therefore has no appetite for risk in the conduct of any of its activities that puts its reputation in jeopardy, could lead to undue adverse publicity, or could lead to loss of confidence by the College's stakeholders.

Risk tolerance level = Low (1).

6.3 Compliance – The College places great importance on compliance, and has no appetite for any breaches in statute, regulation, professional standards, bribery or fraud. There is clearly no strategic benefit to accepting this kind of risk, and a significant threat to the organisation in the case of failure.

Risk tolerance level = Low (2).

⁶ Ref: HBR June 2012; Managing Risks: A New Framework; Kaplan and Mikes

6.4 Financial – The College aims to achieve long term financial viability and overall financial strength. Any activity which has a risk score RAG-rated Amber or Red, where the financial impact is greater than 1% of total income, exceeds the College's risk tolerance. However the College is resilient to a degree of financial risk and, given the potential of strategic gain, is in a position to consider acceptance of a degree of financial risk.

Risk tolerance level = Medium (3).

6.5 Student Experience – The College intends that its students will be inspired and stimulated to develop a lifelong desire for knowledge and learning, and therefore encourages a pioneering and innovative approach to learning delivery, and a willingness to try new approaches. It recognises that this should involve an increased degree of risk in developing and enhancing the student experience, and is comfortable in accepting this risk, subject always to ensuring that potential benefits and risks are fully understood and that sensible measures to mitigate risk are established.

Risk tolerance level = Medium (3).

6.6 Major Change or Development Activities (e.g. projects, collaborations, non-grant income generating activity) – Major change or development activities are required periodically in pursuit of the College's Strategic Priorities. The College expects such changes to be managed according to best practice in project and change management, and has low appetite for deviating from such standards. However the College recognises that, from time to time, certain initiatives may carry greater than usual risk.

Risk tolerance level = Medium (4).

6.7 Environment and Social Responsibility – The College wishes to make a significant, sustainable, and socially responsible contribution to Glasgow and Scotland through its education and operational activities. It recognises that this should involve an increased degree of risk and is comfortable in accepting this risk, subject always to ensuring that potential benefits and risks are fully

understood and that sensible measures to mitigate risk are established. For example, if social responsibility or environmental issues are prioritised above other considerations, there may be a potential negative impact in other respects (e.g. financial). Examples: A community benefit may be a greater priority than a financial benefit if that is the strategic priority or defined policy. Widening access initiatives may negatively impact upon student success PIs, and may impact upon student support funds. These kinds of initiatives therefore carry a strategic risk which the College may be willing to accept (appetite) and capable of withstanding the consequences of (tolerance).

Risk tolerance level = Medium (3).

6.8 People and Culture – The College will pursue efforts to value, support, develop and utilise the full potential of its staff. The College places importance on a culture of equality and diversity, dignity and respect, collegiality, the development of staff, and the health and safety of staff, students and visitors. It has low appetite for any deviation from generally recognised standards in these areas, and is able to accept a small degree of risk in pursuit of these standards. Also, given the resilience developed via investment in staff development, the College may also from time to time accept loss of experienced staff.

Risk tolerance level = Low (2).

6.9 Business Continuity – The College will ensure that adequate provision is made, as far as is possible, for the continuity of its services in the event of any kind of catastrophic event or systems failure. While the likelihood of such an event is considered low, the impact is potentially very high, in that a failure to deliver College services for an extended period of time would be a strategic threat to the organisation.

Risk Tolerance level = Low (1)

6.9 Risk Tolerance and Acceptable Risk Score

A low tolerance would imply a lower limit of acceptable risk score.

The table below aligns the College's tolerance for risk across activity headings with the 5 x 5 (Impact x Likelihood) risk score matrix in the Risk Register as indicated. The risk tolerance level varies across the categories of College activity and correspondingly so too does the upper limit of acceptable risk score:

| Tolerance Category (Strategic Theme Quadrant) | Low | | Medium | | High | |
|--|--------------------------------|-----|--------------------------------|-------|--------------------------------|-------|
| | Limit of Acceptable Risk Score | | Limit of Acceptable Risk Score | | Limit of Acceptable Risk Score | |
| | 1-3 | 4-5 | 6-9 | 10-12 | 15-16 | 20-25 |
| Tolerance Scale 1-6 | | | | | | |
| Reputation (Growth and Development) | 1 | 2 | 3 | 4 | 5 | 6 |
| Compliance (Processes and Performance) | | 2 | 3 | 4 | 5 | 6 |
| Financial (Finance) | | | 3 | 4 | 5 | 6 |
| Student Experience (Students) | | | 3 | 4 | 5 | 6 |
| Major change and development activities (Growth and Development) | | | | 4 | 5 | 6 |
| Environment and social responsibility (All Strategic Themes) | | | 3 | 4 | 5 | 6 |
| People and Culture (Growth and Development) | | 2 | 3 | 4 | 5 | 6 |
| Business Continuity (Processes and Performance) | 1 | 2 | 3 | 4 | 5 | 6 |

7. Responsibilities

7.1 Role of the Board of Management

The Board of Management has a fundamental role to play in the management of risk. Its role is to:

7.1.1 Set the tone and influence the culture of risk management within the College. This includes:

- Determining whether the College is 'risk taking' or 'risk averse' as a whole or on any relevant individual issue (i.e determining "risk tolerance" for each risk);
- Determining what types of risk are acceptable and which are not;
- Setting the standards and expectations of members of staff with respect to conduct and probity.

7.1.2 Approve major decisions affecting the College's risk profile or exposure.

7.1.3 Oversee the management of significant risks to reduce the likelihood of significant adverse outcomes.

7.1.4 Seek assurance that the less significant risks are being actively managed, with the appropriate controls in place and working effectively.

7.1.5 Annually review risks.

7.1.6 Annually review the College's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

7.1.7 Review the effectiveness of internal control of the College, based on information provided by the Executive Leadership Team. Its approach is outlined in the Risk Management Procedure.

7.2 Role of the Senior Management Team

The key roles of the Senior Management Team are to:

7.2.1 Implement policies on risk management and internal control;

7.2.2 Identify and evaluate regularly the significant risks faced by the College for consideration by the Board of Management;

7.2.3 Ensure appropriate channels are in place to enable risk reporting at all levels of the organisation, and through these levels to the SMT and thence to the Risk Register. For example, risk identification and reporting will be regularly reviewed at operational team meetings, minuted where appropriate, and escalated via teams to the Senior Management Team and Executive Leadership Team.

7.2.4 Provide adequate information in a timely manner to the Board of Management and its committees on the status of risks and controls;

7.2.5 Undertake an annual review of effectiveness of the system of internal control and provide a report to the Board of Management.

8. References

8.1 Policy Framework

| Associated Policies and Procedures | Title |
|------------------------------------|---------------------------|
| Policy Framework | Planning |
| Policy | Risk Management Policy |
| Procedure | Risk Management Procedure |

8.2 Other College Documents

| Other College Documents | Title |
|-------------------------|------------------------|
| To note | Risk Guidance Document |

8.3 External References

| Source | Title/Link |
|------------------------------------|---|
| MH Treasury | Orange Book |
| RIMS (Risk Management Society) | Executive Report: Exploring Risk Appetite and Risk Tolerance; 2012. |
| IRM (Institute of Risk Management) | https://www.theirm.org/knowledge-and-resources/thought-leadership/risk-appetite-and-tolerance/ |
| Harvard Business Review | HBR June 2012 Managing Risks: A New Framework; Kaplan and Mikes https://hbr.org/2012/06/managing-risks-a-new-framework |

9. Document Control and Review

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| Approval Status | Approved |
| Approved by | Approved by Board of Management Audit Committee |
| Date Approved | 19 Sept 2011 Version 1.1: Recommended by ELT for approval by Board under Chair's action (8/2/12); Version 2.1: Approved by Audit Committee, 28/11/16. |
| EQAI Status | EQIA Conducted Yes: <input checked="" type="checkbox"/> No: <input type="checkbox"/> |
| Proposed Review Date | December 2019 |
| Lead Department | College Secretary/Planning |
| Lead Officer(s) | Principal; College Secretary/Planning |
| Board Committee | Audit Committee |
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10. Revision Log

| Version Date | Section of Document | Description of Revision |
|-----------------------------|---------------------------------|--|
| Version 1.1 12 02 2013 | Various | Version 1.1 (12/02/13): revised post titles and responsibilities relating to these changes. |
| | 4.1.3 (formerly 2.1.3) | Insert: "and strategies" after "policies" |
| | 6.1.1 (formerly 3.1.1) bullet 1 | Insert "for each risk" after "risk appetite"; |
| Version 1.2 21 03 2013 | All | Policy redesigned within new College Policy template (June 2012). Order of text rearranged under template headings. |
| | 1.1 | Insert: "The College's approach... Transparency". |
| | 2.1 | Replace 'This reflects the development of a' with "in developing". |
| | 5. | New section "Definitions" added. Text mirrors that in Risk Guidance document. |
| | 6.1.3 | Insert "where appropriate" after "minuted" |
| Version 1.3 4 April 2013 | All | EQIA undertaken with revised EQIA proforma. |
| | 4 | Insertion of 4.1.6 relating to people who share protected characteristics, including footer link to EHRC definitions of "protected characteristics". |
| | 7.2 | To note: Risk Guidance Document |
| | 8. | Approval Status clarified |
| Version 1.4 20 12 13 | All | Checked for consistency with new Risk management approach |
| Version 1.5 04 12 14 | 6.2.3 8 | Minor revision to reflect new job titles/responsibilities. |
| Version 2.1 29 11 16 | 5.2 6 7.1.1 8.2 8.3 | Insertion of Risk Appetite and Risk Tolerance definitions Addition of new section: Risk Tolerance Reference to Risk Tolerance "College Documents" replaces "College Policies" Added references to source guidance (RIMS/IRM/HBR) |