

RISK MANAGEMENT POLICY

Version 1.3

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Risk Management Policy

Contents

SECTION	PAGE
1. Introduction	3
2. Aims and Objectives	3
3. Requirements	3
4. Internal Control	3
5. Regulatory and Industry Guidance	4
6. Risk Tolerability	4
7. Roles and Responsibilities	5
8. Identification of Risks	5
9. Risk Matrix	6
10. Risk Appetite and Tolerability	7
11. Addressing Risk	7
12. Implementation of Consolidated Risk Matrix	8
13. Risk Reporting and Communication	8
14. Risk Register	8
15. Communicating Risk	8
16. Annual Risk Review and Assessment	9
17. Areas for Improvement	9

1.0 Introduction

The Risk Management Policy forms part of The Education Alliance's internal control and governance arrangements and defines the Trust's underlying approach to risk management. It gives key aspects of the risk management process, and identifies the main reporting procedures.

2.0 Aims and Objectives

The Risk Management Policy aims to:

- Ensure The Education Alliance complies with risk management best practice and sets out the current processes and responsibilities for risk management.
- Establish one common risk matrix and process for The Education Alliance enabling individual schools and functions within the Trust to objectively identify, assess and document risks and then prioritise risk mitigation actions.
- Provide the ability to objectively cross correlate risks from varying sources.
- Outline the roles and responsibilities for risk management.
- Identify risk management processes to ensure that all risks are appropriately identified, controlled and monitored.
- Ensure appropriate levels of awareness throughout the Trust and provide assurance to the Executive Management Team, Audit Committee, Board of Trustees and Local Governing Bodies that risks are being adequately controlled, or identify areas for improvement.

3.0 Requirements

The requirements can be summarised as:

- The Senior Leadership Team (SLT), Trust Team and Executive Management Team acknowledge responsibility for the system of internal control.
- An ongoing process is in place for identifying, evaluating and managing all risks.
- An annual process is in place for reviewing the effectiveness of the system of internal control.
- There is a system in place to deal with internal control aspects of any significant issues disclosed in the annual report and accounts.

4.0 Internal Control

In assessing what constitutes a sound system of internal control, consideration should be given to:

- The nature and extent of the risks facing the Trust.
- The extent and categories of risk which it regards as acceptable.
- The likelihood of the risks concerned materialising.
- The Trust's ability to reduce the incidence and impact of the risks that do materialise.

5.0 Regulatory and Industry Guidance

Risk Management best practice is encapsulated in the Risk Management Standard published jointly by the major risk management organisations in the UK – The Institute of Risk Management (IRM); The Association of Insurance and Risk Managers (AIRMIC); and ALARM, The National Forum for Risk Management in the Public Sector.

Regulatory and industry guidance around the topic of risk matrices, risk rating and risk tolerability is also available from a number of sources. In 1999 the UK Health and Safety Executive (HSE) produced a report titled 'Reducing Risks, Protecting People' (R2P2), which detailed their decisions about the management of risk that are required of them under the Health and Safety at Work Act 1974.

6.0 Risk Tolerability

Contained within R2P2 is the presentation of the three regions of risk tolerability, these are detailed in Fig. 1. Essentially the greater the initial level of risk under consideration, the greater the degree of rigour required to demonstrate that risks have been reduced so far as is reasonably practicable.

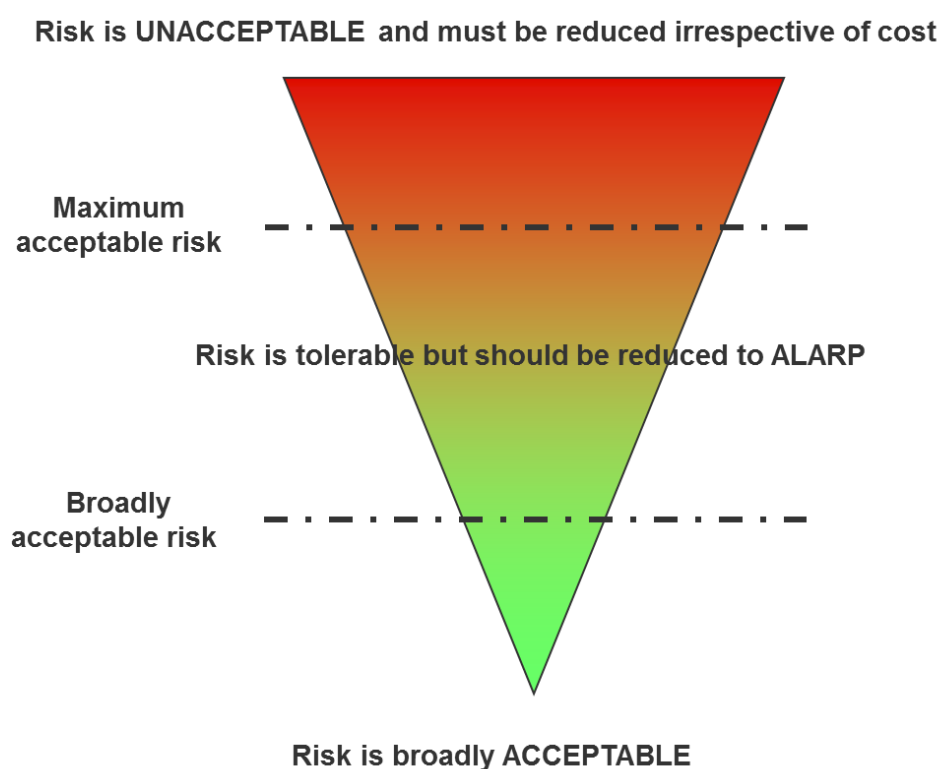


Fig. 1 - Risk Matrices Comparison

The unacceptable region is such that if a particular risk falls into that region, it is regarded as unacceptable whatever the level of benefits associated with the activity. Any activity or practice giving rise to risks falling in that region would, as a matter of principle, be ruled out unless the activity or practice can be modified to reduce the degree of risk so that it falls in one of the regions below, or there are exceptional reasons for the activity or practice to be retained.

Risks falling into the broadly acceptable region are generally regarded as insignificant and adequately controlled. The HSE would not usually require further action to reduce risks unless reasonably practicable measures are available or where the law so requires it.

The HSE expect that the risks in the tolerable region should be properly assessed and the results used properly to determine control measures. Assessment of the risks needs to ensure that the residual risks are not unduly high and kept as low as reasonably practicable (ALARP) and that the risks are periodically reviewed to ensure that they still meet the ALARP criteria.

Determining whether risks have been reduced as low as is reasonably practicable involves an assessment of the risk to be avoided, and an assessment of the sacrifice (in money, time and trouble) involved in taking measures to avoid that risk, and a comparison of the two. The basis on which the comparison is made involves the test of 'gross disproportion', i.e. if a measure is practicable and it cannot be shown that the cost of the measure is grossly disproportionate to the benefit gained, then the measure is considered reasonably practicable and should be implemented.

7.0 Roles and Responsibilities

SLT, Trust Team and Executive Management Team have joint overall responsibility for risk management. The Director of Finance has lead responsibility for risk management processes and the Trust-wide Risk Register. This responsibility includes:

- Monitoring the performance of risk management processes.
- Managing the Trust's Risk Register and collating the risks raised at relevant meetings (SLT meetings etc.).
- Ensuring the owners of each risk have the appropriate controls in place to manage the identified risks.

Risk will be discussed and monitored on an ongoing basis with the Risk Register being formally reviewed at least annually by the Executive Management Team and Audit Committee. The annual review will form part of that Committee's report to the Board of Trustees.

The Audit Committee will have Risk as a standing item on each of their agendas.

8.0 Identification of Risks

The Risk Management Standard states that risk identification should be approached in a methodical way to ensure that all significant activities have been identified and all the risks flowing from these activities have been defined.

Risks are broken down into seven key areas:

- 1 Individual schools
- 2 Estates
- 3 IT
- 4 Human Resources
- 5 Finance
- 6 Governance

- 7 SCITT
- 8 Operational

The structure and organisation of the Trust's Risk Register seeks to ensure that all significant objectives and activities have been identified and the risks associated with each area have been identified.

9.0 Risk Matrix

Risk is interpreted as the combination of consequence (or severity) and likelihood (or frequency). Risk matrices are tools to semi-quantitatively assess various risk scenarios and judge the relative magnitude of the risk. They are a reasonably quick and simple method of risk assessment, and allow the combination of consequence and likelihood to be represented graphically.

A risk matrix typically comprises a square divided into a number of boxes, with each box representing a different underlying estimation of risk. The basis for the risk estimates in the matrix can be qualitative or semi-quantitative, or a combination of both. For a qualitative matrix, there are a number of categories for the possible consequences and a similar number for the possible frequencies.

Potential hazardous events are identified and possible risk scenarios are described. For each risk scenario, the assessor estimates the likelihood of the risk scenario occurring and the possible impact, or consequence, should it occur. The scenario is categorised in terms of its consequence and frequency, then mapped to the appropriate square on the matrix.

Consequence may be categorised using terms such as catastrophic, major or minor, or the categories may be defined more clearly by potential number of injuries or fatalities. For frequencies, terms such as probable, unlikely and very unlikely can be used, and it may be possible to use numerical frequency ranges based on the number of times an event is likely to occur.

The Director of Finance will ensure all assessors using the matrix fully understand the categories being used.

9.1 Evaluation of Risks

The Risk Management Standard states that risks should be evaluated against agreed criteria to make decisions about the significance of risks to the Trust.

Education Alliance uses a 4 x 4 matrix to assess impact and probability.

9.2 Descriptors

The descriptors for impact and probability can be expanded as follows:

Impact is assessed as:

1. Interruption less than one day & critical systems subject to minor incidents/ little damage to assets/unable to deliver 0 - 5% of the Education Alliance's agreed strategic targets/local media unsubstantiated article/Health & Safety impact could result in minor personal injury
2. Interruption less than one week & critical systems subject to a series of incidents/minor loss of assets/unable to deliver 5 - 25% of the Education

- Alliance's agreed strategic targets/local media campaign/board intervention/Health & Safety impact could result in minor injuries or short term illness
3. Interruption less than one month & critical systems unavailable for longer than one day/significant loss of assets/unable to deliver 25 - 50% of the Education Alliance's agreed strategic targets/short term national media campaign/EFA intervention/Health & Safety impact could result in extensive injuries or long term illness
 4. Interruption greater than one month & critical systems unavailable for longer than one day/complete loss of assets/unable to deliver more than 50% of the Education Alliance's agreed strategic targets/prolonged national media campaign/EFA intervention/Health & Safety impact could result in multiple loss of life or severe permanent disabilities

Probability is assessed as:

1. Highly Unlikely - May occur in exceptional circumstances/surprising it happens within 3 years/no or very limited experience of similar failure
2. Unlikely - Event might occur at some point in time/unlikely to happen in next 2 years/history of casual occurrences/measures to reduce likelihood taken but not fully effective
3. Probable - strong possibility risk will occur/could happen in next 12 months/history of frequent occurrences/none or few measures to reduce likelihood can or have been taken
4. Highly likely - Event likely to occur in most circumstances/likely to happen in next 12 months/history of regular occurrences/If new event likelihood of occurrence almost inevitable

10.0 Risk Appetite and Tolerability

The term 'risk appetite' describes The Education Alliance's readiness to accept risks and those risks it would seek to reduce.

In practice, The Education Alliance will assess both the risk to be avoided and the sacrifice (in money, time and trouble) involved in taking measures to avoid that risk, and compare the two to ensure that there are not additional, reasonably practical control measures that could be implemented to reduce the risk. These assessments should be continually reviewed for impact and cost.

11.0 Addressing Risks

When responding to risks, The Education Alliance will seek to ensure that it is managed and does not develop into an issue where the potential threat materialises.

The Trust will adopt one of the five risk responses outlined below:

- **Treat** – Risk is accepted but relevant control/mitigating action to be applied to reduce risk
- **Tolerate** – Risk is accepted without putting in place any controls to manage risk, risk is therefore considered to be of a tolerable level
- **Transfer** – Risk is handled elsewhere (e.g. outsourcing, use of insurance, etc..)
- **Terminate** - Risk is to be eliminated entirely either by ceasing the activity or changing strategy

- **Take** - Recognising positive consequences to taking the risk (e.g. diversifying to capture emerging opportunities)

12.0 Implementation of Consolidated Risk Matrix

The following steps outline the approach that a risk owner will take in utilising the proposed risk matrix:

1. Risk owner to assess a risk scenario.
2. Frequency and consequence of risk scenario defined.
3. Risk plotted onto risk matrix.
4. Risk tolerability of individual scenario defined from matrix.
5. Assess existing controls portfolio.
6. Residual risk plotted onto risk matrix.
7. Consider planned action to further reduce risk.
8. Regularly monitor and review risk scenario to confirm continued validity.

13.0 Risk Reporting and Communication

The aim of reporting risk is to provide assurance to the Executive Management Team, Auditors and Board of Trustees that The Education Alliance is effectively managing its risks and has a robust system of internal controls.

14.0 Risk Register

The reporting mechanism will be the Trust's Risk Register. This will highlight the key risks facing the Trust, as well as a breakdown for each key strategic aim. The Risk Register will be owned by the Director of Finance and monitored by the Executive Management Team and Audit Committee on an, at least, annual basis. Ultimately responsibility for all risks will rest with the CEO.

Any significant changes in risk impact or probability, or the occurrence of an event which raises the profile of a risk will be recorded on the Risk Register as it occurs. Any new or increased risks identified by the Executive Management Team, Audit or raised by a member of staff will be evaluated and, if appropriate, recorded on the Risk Register.

15.0 Communicating Risks

The Executive Management Team and Audit Committee monitor the Risk Register on an ongoing basis and at least annually undertake a full review. The Director of Finance will ensure that any perceived new or increased risks or significant failure of risk management control measures are considered and reported to SLT and Executive Management Team, along with a summary of actions taken.

The Director of Finance, Director of HR and CEO will endeavour to raise awareness that risk management is a part of the Trust's culture and seek to ensure that:

- Individual members of staff are aware of their accountability for individual risks
- Individuals report promptly to senior management any perceived new risks or failure of existing control measures.
- Risk is a standing agenda item on all SLT, Executive Management Team and Trust Team meetings

16.0 Annual Risk Review and Assessment

The Audit Committee review will provide an annual assessment of the effectiveness of the Trust's management of risk.

The Director of Finance, supported by the Executive Management Team will prepare an annual review of risk for the Audit Committee. This will enable the Audit Committee to report to the Board of Trustees on:

- The significant risks facing the Trust.
- The effectiveness of the risk management processes.
- That the Trust has published a Risk Management Policy covering risk management philosophy and responsibilities.

17.0 Areas for improvement

Any areas identified as being in need of improvement will be discussed and agreed termly at the Executive Management Team.