



# Risk Management Policy and Risk Appetite

Summary of major changes:

<b>Version</b>	<b>Date</b>	<b>Approved By</b>	<b>Reason</b>
2.0	11 Sept 2023	ARC	<ul style="list-style-type: none"><li>• Established EBITDA as a measure of Financial Risk Appetite.</li><li>• Aligned risk management role of ARC with their terms of reference.</li></ul>
2.1	5 Sept 2024	ARC	<ul style="list-style-type: none"><li>• Added requirement for School, College and PSG SLTs to conduct semi-annual risk review.</li><li>• Added Core Information Assets risk appetite statement.</li><li>• Clarified Risk Appetite preamble</li></ul>

# University of Edinburgh Risk Policy and Risk Appetite

## **General**

Pushing the boundaries of knowledge, innovating, and implementing strategic developments will always have risks. Effective risk management increases the probability of successful outcomes, whilst protecting the reputation and sustainability of the University. The Court is committed to ensuring a robust and effective risk management framework and process across all Colleges, Groups and subsidiaries of the University, and expects appropriate risk management to be integrated into all planning, decision-making, and operational activities.

## **Objectives**

The University's risk management objectives are as follows:

1. Strategic level decision-making and planning are informed by accurate and congruent assessment of risk across the diverse Colleges, Groups and subsidiaries through formal University-wide Enterprise Risk Management (ERM) framework and processes.
2. Effective College, Group and subsidiary operational decision-making is guided by accurate and congruent assessment of risk within and across their diverse business areas. The risk management framework and process in place at this operational level supports and feeds back into the strategic level ERM framework, while meeting the needs of each distinct organization.
3. All risk management across the University adheres to the current risk management framework established by the Court, while encouraging a culture of innovation and opportunity, informed risk taking within the University's risk appetite, and an acknowledgement of risk as inherent in all activities of the University.

## **Framework**

The management of risks in the University is undertaken within a framework comprising:

- a. the values, vision, culture, mission and goals of the University and its constituent organizations;
- b. the University's governance and reporting structures;
- c. this *Risk Policy and Appetite* statement issued by the Court;
- d. [BS/ISO 31000:2018 Risk management – Guidance standard](#), which defines the risk management process adopted by the University;
- e. the *University Risk Management Guidance Manual*;
- f. supporting tools and documents, such as risk register templates, likelihood and consequence criteria, and partner policies such as insurance, procurement, emergency management and business continuity, security, IT, and financial control policies; and
- g. the assurance and audit processes.

## **Roles and Responsibilities**

An effective risk management programme should permeate existing management processes and provide assurance over the management of key risks. It requires interdependence between strategic and operational objectives, management processes, governance arrangements and other policies.

The Court recognises that in order to pursue its objectives and to take advantage of opportunities, the University cannot avoid taking risks, and that no risk management programme can aim to eliminate risk fully. Accordingly, the University's approach to risk management is intended to increase institutional risk awareness and understanding, and

thus support taking risks where appropriate, in a conscious, structured and controlled manner. Risk management must be embedded throughout the University. It is not the sole responsibility of senior managers but should be exercised by all staff, particularly those with management or operational responsibilities.

### Role of the Court

Court has a requirement under the Higher Education Governance (Scotland) Act 2016 and the Scottish Code of Good Higher Education Governance (2017 edition) to ensure the establishment and monitoring of systems of control and accountability, including risk management. Accordingly, its role is to:

- a. Set the tone and influence the culture of risk management within the institution;
- b. Determine the nature and extent of the principal risks it is willing to take in pursuing the University's strategic plan. This includes determining what types of risk are acceptable and which are not, and providing a risk appetite framework within which the appropriate level of exposure to risk can be determined in particular circumstances;
- c. Approve major decisions affecting the University's risk profile or exposure.
- d. Ensure the establishment and maintenance of a risk register;
- e. Provide an annual disclosure about risk management in audited financial statements and submit an annual Corporate Governance statement to the Funding Council following advice from the Audit Committee, Risk Management Committee, senior management, external and internal audit.

### Role of the University Executive (UE)

The UE is responsible for:

- a. Implementing Court's risk management policy.
- b. Ensuring that the major risks associated with significant proposals put to it have been properly considered and can be appropriately managed within the policy framework set by Court.
- c. Ensuring that corporate risks are properly managed, reviewing evidence to this effect and ensuring measurement of results as appropriate.
- d. Communicating University policy and information about the risk management programme to all staff, subsidiary organisations and external partners.

### Roles of Heads of Colleges, Schools and Professional Services

Responsibility for identifying and managing the risks in the University, as in any other organisation, lies with the management of the University. Heads of Colleges, Schools, and Professional Services are responsible for:

- a. Appointing a senior manager to coordinate risk management within their organization.
- b. Ensuring compliance with University and College policies. They have a responsibility to identify, evaluate and manage strategic and operational risks in accordance with the University's risk management policy and process, ensure each risk is assigned a risk owner, and bring emerging corporate risks to the UE's attention.
- c. Ensuring their Senior Leadership Team conducts a risk review at least every six months, to confirm their risk management information is complete and up-to-date, that existing controls are appropriate and effective, and that identified actions are progressing satisfactorily.
- d. These managers should ensure that everyone in their area of responsibility understands their risk management responsibilities and must make clear the extent to which staff are empowered to take risks.

### Role of the Risk Management Committee

The role of the Risk Management Committee is to support and advise the Audit and Risk Committee, and through it the Court, on the implementation and monitoring of the risk management policy. Its remit is to:

- a. Ensure that the identification and evaluation of key risks that threaten achievement of the University's objectives is carried out, and that a register of these risks is maintained.
- b. Identify the strategy in place to manage such risks, including identification of appropriate risk owners, and monitoring the satisfactory operation of the management strategy.
- c. Satisfy itself that other risks are being actively managed, with the appropriate strategies in place and working effectively.
- d. Report regularly to the Court through the UE and the Audit & Risk Committee on the achievement of the remit. Contribute to raising awareness of risk generally across the University and to maintaining the profile of risk management.
- e. Address such other matters related to risk as may arise from time to time.

#### The University Risk Manager

The risk manager is a part of Corporate Services Group. They are responsible to the Risk Management Committee for:

- a. Facilitating the implementation of the standard risk management framework and process across the University.
- b. Assisting with the analysis of operational level risk and the roll-up of significant risks to the strategic level.
- c. Providing risk management advice and assistance to all organizations within the university.

#### Role of Internal Audit

Internal Audit is responsible for independently and regularly reviewing the operation of the overall risk management process in the University. In doing this, it has regard to best practice as recommended by professional institutes and other relevant organisations. Internal Audit will:

- a. Report its findings to the Audit & Risk Committee.
- b. Advise and make recommendations to the Risk Management Committee and senior managers as appropriate.

#### Role of the Audit & Risk Committee

The Audit & Risk Committee is responsible for monitoring the University's general arrangements for risk management, and specifically for:

- a. Advising the Court on the effectiveness of policies and procedures for risk assessment and risk management.
- b. Annually reviewing the University's approach to risk management and, if appropriate, recommending changes or improvements to key elements of its processes and procedures. Providing a statement to the Court annually indicating how the University has complied with good practice with regard to Corporate Governance and, in particular, in relation to effective risk management.

#### Role of all Faculty and Staff

All faculty and staff have a critical role to play in risk management. As a minimum, all members of the University have a responsibility to:

- a. Effectively manage risk within their areas of responsibility in accordance with the University's risk management policy and process.

- b. Report risks beyond their scope of authority or resources to their superiors.

### **Risk Appetite**

The Risk Policy and Appetite establishes the Court's commitment to the risk management framework and process, sets the goals and objectives of the University's risk management process, lays out risk management roles and responsibilities throughout the University, and specifies the amount of risk the University is willing to seek or accept in the pursuit of its long-term objectives. It indicates the parameters within which the University would want to conduct its activities.

In terms of priorities, the need to avoid reputational, compliance and overall financial risk will take priority over other factors e.g. it will be acceptable to undertake risks in research activities providing they do not expose the University to undue reputational, compliance or financial risk. Similarly, the University is open to innovation in education and student experience, if this supports and enhances its reputation and does not expose it to undue finance or compliance risks. A balanced assessment has to be taken of risks – in many cases there are risks attached to both doing something and doing nothing.

Given the devolved nature of the University, the Statement is intended to guide the decision-making and conduct of University affairs of academic and professional managers and committees, indicating:

- a. the areas where colleagues should step out and be innovative;
- b. the areas where colleagues should be conservative and avoid exposure to risk; and
- c. the "lines" across which the University Court and senior management do not wish to cross, and where the University's senior management and Court would need to be notified.

Where appropriate, the implementation of the Statement will be incorporated into processes and procedures of the University.

Responsibility for managing the activities of the University within the Risk Policy and Risk Appetite lies with the management of the University in particular Heads of Colleges, Schools, Professional Services and Subsidiary Companies; as well as key University and College Committees.

## Statement of Risk Policy and Risk Appetite

The University'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. It recognises that its appetite for risk varies according to the activity undertaken, and that its acceptance of risk is subject always to ensuring that potential benefits and risks are fully understood before developments are authorised, and that sensible measures to mitigate risk are established.

The University's appetite for risk across its activities is provided in the following statements, and is illustrated diagrammatically.

	< Less acceptable < to take risks		More acceptable > to take risks >	
	Risk Averse	Cautious	Open	Aggressive
Reputation	< >			
Compliance	< >			
Financial		< >		
Research			< >	
Education & Student Experience		< >		
Knowledge Exchange			< >	
International Development		< >		
Major change activities		< >		
Environment and Social Responsibility		< >		
People and culture		< >		
Core Information Assets	< >			

Risk Appetite Criteria:

Score	Description
0	Court unwilling to accept risks with potential to impact this operational area, as extreme damage to the viability of University could result. Sub-optimal performance is unacceptable. Failure is not an option. No margin for error.
1-2	Very reluctant to accept risks. Potential pay-off must substantially exceed costs, and robust controls must be in place to prevent or mitigate potential harm. Court must specifically approve taking these risks. Continual monitoring and regular reporting to Court is expected if approval to proceed is granted.
2-5	Reluctant to accept risks in this operational area. Detailed business plan with formal risk assessment would be required demonstrating value of taking these risks. Existing risks above "Medium" in these categories must be reported to Risk Management Committee.
6-8	Colleges and Support Groups can retain high risk in these areas, provided substantial potential benefits exist. Robust risk management and ongoing monitoring by Heads of College is required.
8-10	Retaining these risks can be considered by Colleges and Groups provided resources exist internally to absorb potential losses and costs without impacting key operations and services, or other parts of the University.
10-15	Pursuit of opportunities is encouraged provided risks are considered and documented, and resources applied are commensurate with the potential benefit to the existing goals and objectives of the organization.
15-16	Stretch targets are encouraged, even if failure is possible. Should not threaten the delivery of current key programs, but project failure is possible and acceptable in pursuit of potential benefits.

18	Project teams and service groups can proceed in the face of significant risks provided reasonable mitigation strategies are in place. Heads of School should likely be aware of these activities' risks.
18-20	Individuals are free to innovate and take intelligent risks provided some potential benefits exist.
25	Risk taking is encouraged, assuming it's legal and a degree of due diligence is applied. Chance of failure can be high and failure will be accepted in the pursuit of moderate rewards.

Note: Any particular activity may incorporate many categories of risk. A research project, for example, may in and of itself be at high risk of failure, and the Court may be willing to tolerate this. They would be unwilling, however, to accept any risk associated that the same project's failure to comply with statute, regulation, professional standards, research or medical ethics, bribery or fraud, and would similarly want reasonable assurance that the project did not pose an undue financial liability risk.

**Reputation** – It is regarded as critical that the University preserves its high reputation. The University therefore has low 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 Scottish and UK political establishment, and funders of its activities.

**Compliance** – The University places great importance on compliance, and has no appetite for any breaches in statute, regulation, professional standards, research or medical ethics, bribery or fraud. It wishes to maintain accreditations related to courses or standards of operation, and has low appetite for risk relating to actions that may put accreditations in jeopardy

**Financial** – The University aims to maintain its long term financial viability and its overall financial strength. Whilst targets for financial achievement will be higher, the University will aim to manage its financial risk by not breaching the following minimum criteria<sup>1</sup>:

*Operational , Quantitative, Quarterly test*

- *We will ensure the basket of financial sustainability metrics is always at a weighted acceptable level*

*Liquidity and gearing, Quantitative, Monthly test*

- *We will maintain at least 1 months equivalent average spend in cash or short term deposits or negotiated bank facilities*
- *We will ensure that the annual surplus before interest is at least 2 times the annual interest charge, except in exceptional circumstances as approved by Court.*
- *We will limit borrowing over 1 year to 35% of net assets except in exceptional circumstances approved by Court.*
- *We will ensure that all cash invested through the Endowment Fund portfolio can be liquidated with 3 month notice and that 30% can be liquidated with 1 month notice*

*Qualitative*

- *We will maintain access to liquidity that will allow us to meet our obligations, even under stressed scenarios.*
- *We will limit volatility impact by securing fixed rate long term borrowing*
- *We will maintain a portfolio of highly liquid assets to meet the liquidity outflows that may occur over the near-term.*
- *We will maintain a contingency plan to address any unforeseen events.*

*Surplus, Quantitative, Annual test*

- *We will deliver a minimum annual Operating Surplus of at least 2% of turnover over any three year period unless Court approves a specific alternative*

<sup>1</sup> These have been developed in conjunction with the Director of Finance

- We will operate with a Staff Cost / Total Expenditure ratio of less than 60%

**The above statements take priority over the statements of areas of risk appetite below:**

**Research** – The University wishes to be at the leading edge in the creation of knowledge and making a difference to society. It wishes to grow its research activities, and improve its performance in each REF assessment compared to the previous assessment. It recognises that this will involve an increased degree of risk in developing research activities, and is comfortable in accepting this risk subject to a) limitations imposed by ethical considerations, and b) ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

**Education and Student Experience** – The University wishes to stimulate students to develop a lifelong thirst for knowledge and learning, and encourage a pioneering innovative and independent attitude and an aspiration to achieve success. It expects to be in the top quartile of surveys related to student experience. It recognises that this should involve an increased degree of risk in developing education and the student experience, and is comfortable in accepting this risk subject always to ensuring that potential benefits and risks are fully understood before developments are authorised and that sensible measures to mitigate risk are established.

**Knowledge Exchange** – The University wishes to be amongst the leaders in transforming knowledge, ideas, skills, and expertise into advice, innovation, intellectual property, and enterprise, thereby enriching society. It recognises that developing this may 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 before developments are authorised and that sensible measures to mitigate risk are established.

**International Development** – the University aims to achieve global impact in its activities and to promote research and other collaborations and staff/student exchanges with leading institutions across the world. It has a strong appetite for developing such networks to the extent that they support the mission and reputation of the University, a medium appetite for investing in research facilities overseas, and a low appetite for investing in the development of student campuses outside of the UK.

**Major Change activities (e.g. projects, collaborations, mergers)** – Major change activities are required periodically to develop the University, and to adapt to changes in the regulatory and technological environment and in the nature and conduct of the University's activities. The University expects such changes to be managed according to best practice in project and change management, and has low appetite for deviating from such standards.

**Environment and Social Responsibility** – The University aims to make a significant, sustainable, and socially responsible contribution to Scotland, the UK and the world through its research, education, knowledge exchange 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 before developments are authorised and that sensible measures to mitigate risk are established.

**People and culture** – The University aims to value, support, develop and utilise the full potential of our staff to make the University a stimulating and safe place to work. It places importance on a culture of academic freedom, equality and diversity, dignity and respect, collegiality, annual reviews, the development of staff, and the health and safety of staff, students and visitors. It has low appetite for any deviation from its standards in these areas.

**Core Information Assets** – The University recognizes the reliance we have on core information assets to support the delivery of teaching, learning and research activity. It



therefore has a low risk appetite for the failure of process, technology or people related controls that could affect the confidentiality, integrity or availability of any of those assets. It also acknowledges the constantly evolving threat landscape relating to information security and the resultant need for ongoing vigilance and high standard of information security awareness and practice.

## **Information and References**

### University Standards, Policy and Direction

BS/ISO 31000:2018 Risk management – Guidance Standard, available to University staff [here](#).

[University of Edinburgh Risk Management Guidance Manual.](#)

[Risk Management tools and resources](#)

### Related Policies

[Business Continuity](#)

Emergency Management (TBI)

[Health and Safety](#)

[Financial Administration and Controls](#)

[Internal Audit](#)