


**RISK APPETITE STATEMENT AND TOLERANCES**

1. Risk appetite is defined as the amount or type of risk the University is prepared to tolerate in order to achieve its strategic aims and objectives. It is reviewed and approved annually by Audit & Risk Committee and Court.
2. The statement is a guide to all staff (and a reference for students and other stakeholders) indicating the areas where the University expects a conservative, compliance focussed approach to risk and areas where our strategy requires an innovative approach embracing a degree of risk to deliver the aspirations set out in our strategy. In all cases there must be careful control and mitigation of adverse compliance, legal, information/cyber security, reputational and financial risks, and avoidance of risks which could compromise our duty of care for the health, safety and wellbeing of staff, students and visitors.
3. The University’s risk appetite underpins all activities and must be considered when developing new business propositions and projects. Staff should feel confident that plans and initiatives are aligned with this statement and confident that the risks are within tolerances and that they will be supported in managing failure as well as delivering success.
4. On a day to day to day basis, risk is identified and managed through the ongoing and active monitoring and review of School, Department and the Corporate Risk Registers, as well as project risk registers where appropriate, in accordance with the University’s Risk Management policy and guidance.
5. The University has identified 12 risk categories across key areas of activity. The appetite for risk across the university in these specified areas of activity is classified against the commonly used 5 point descriptive scale below (adapted from HM Treasury guidance):

| Risk category |                                  | Risk appetite  |         |          |      |        |
|---------------|----------------------------------|--|---------|----------|------|--------|
|               |                                  | Unacceptable to take risks  Higher willingness to take risks |         |          |      |        |
|               | Appetite Descriptor <sup>1</sup> | Averse   | Minimal | Cautious | Open | Hungry |
|               | Compliance & Legislation         |  |         |          |      |        |
|               | Information & Cyber Security     |  |         |          |      |        |
|               | Reputation                       |  |         |          |      |        |
|               | Financial                        |  |         |          |      |        |
|               | Learning & Teaching              |  |         |          |      |        |
|               | Research & Enterprise            |  |         |          |      |        |
|               | International Development        |  |         |          |      |        |
|               | People and Culture               |  |         |          |      |        |
|               | Student Experience               |  |         |          |      |        |

|                                 |  |  |  |  |  |
|---------------------------------|--|--|--|--|--|
| Estates & Infrastructure        |  |  |  |  |  |
| Internal processes              |  |  |  |  |  |
| Corporate Social Responsibility |  |  |  |  |  |

6. The following statements seek to further articulate risk appetite for each category and define risk tolerance thresholds by reference to financial impact measures where applicable and to the permissible maximum residual risk scores following assessment of risks and the mitigating effect of controls using the University’s 5x5 Likelihood x Impact risk scoring matrix<sup>ii</sup> (the standard format for assessing risks within the University’s risk management framework) which should be undertaken as part of the business case for new business propositions and projects. **NB** Residual risk scores of 20/25 cannot be tolerated. Risks at this level should be avoided, and where they occur, should be escalated in accordance with the Risk Management Policy and be subject to immediate, priority remedial action to reduce the risk to within tolerable parameters, or to terminate the risk where possible.

Some basic examples to illustrate how the statement of risk appetite and tolerances might apply to different types of proposals in practice is provided in appendices.<sup>iii</sup>

**Compliance & Legislation**

The University will not accept any avoidable risk to its compliance with legislation or any other aspect of the Higher Education regulatory environment and has no appetite for breaches of statute, regulation, professional standards, research ethics, fraud or corruption. It will not tolerate any risks which would compromise its duty of care for the health, safety and wellbeing of its staff, students and visitors. The University recognises that it must meet the conditions of accreditations which are essential to the University’s academic reputation and ability to recruit students. Our risk appetite in this area is for risks which are as low as reasonably practical. Residual risk scores should be as low as possible and should not exceed 9. Where such risks are scored at 9, effective risk action plans should be in place to further reduce the residual risk.

**Information & Cyber Security**

The University will not accept any avoidable risks which could compromise of the security of its information. Information security compromises include a loss of confidentiality, integrity or availability of information and also the loss of digital services as a result of any malicious activity. Our risk appetite in this area is for risks which are as low as reasonably practical. Residual risk scores should be as low as possible and should not exceed 9. Where such risks are scored at 9, effective risk action plans should be in place to further reduce the residual risk.

## Reputation

The University recognises that reputation is hard won and can be quickly lost. It therefore has a low appetite for risk in this area. Localised risk at a low level where there is effective mitigation in place is acceptable against a clear business need to effect change. Residual risk scores should be as low as possible and should not exceed 9. It is acknowledged that international activities can entail a greater level of reputational risk and Court will consider international opportunities on the basis of a full business case and detailed risk evaluation and may be willing to take decisions where a greater degree of reputational risk will be tolerated.

## Financial

The University strives to ensure its long term financial sustainability and overall financial strength but recognises that it has to take financial risks to achieve its strategic objectives. However it takes a generally risk-averse approach in this area. In general the University will seek to minimise residual financial risk and will make judgements based on sound business planning. Residual risk scores following assessment of financial risks relating to new business propositions or projects should be as low as possible and should not exceed 9.

In addition, the University will aim to manage its financial risk by not breaching the following minimum criteria:

|   |  |
|---|--|
| <b>Operational ,Quantitative, Quarterly test</b>  |  |
| <ul style="list-style-type: none"><li>▪ We will ensure the basket of financial sustainability metrics is always at a weighted acceptable level</li></ul>  |  |
| <b>Liquidity and gearing, Quantitative, Monthly test</b>  |  |
| <ul style="list-style-type: none"><li>▪ We will maintain at least 1 month's equivalent average spend in cash or short term deposits or negotiated bank facilities</li><li>▪ We will ensure that our EBITDA is at least 4 times the annual interest charge, except in exceptional circumstances as approved by Court.</li><li>▪ We will limit our net borrowing (borrowings less cash) to less than 3 times our EBITDA except in exceptional circumstances approved by Court.</li><li>▪ We will maintain total Reserves of the Group (prior to pension provision) of at least £110m except in exceptional circumstances approved by Court.</li></ul> |  |
| <b>Qualitative</b>  |  |
| <ul style="list-style-type: none"><li>▪ We will maintain access to liquidity that will allow us to meet our obligations, even under stressed scenarios.</li><li>▪ We will maintain access to unsecured revolving credit or term loan facilities whilst limiting drawdowns to efficiently manage interest liabilities</li><li>▪ We will limit volatility impact by securing fixed rate long term borrowing where appropriate</li><li>▪ We will maintain a portfolio of highly liquid assets to meet the liquidity outflows that may occur over the near-term.</li></ul>  |  |

### Surplus, Quantitative, Annual test

- We will deliver a minimum annual Operating Surplus of at least 2.4% of turnover (with a target of 5%) over any three year period unless Court approves a specific alternative
- We will operate with a Staff Cost / Total Expenditure ratio of less than 64% (with a target of less than 60%)

### Learning & Teaching

The University will be an innovator in enhancing learning and teaching to provide a high quality learning experience to its students. The University recognises that learning and teaching innovation is both a pedagogic and organisational challenge. It accepts the implication that it will explore innovations which will be both successful and unsuccessful and takes an open approach to risk in this area. The University will not pursue any initiative in this area which is incompatible with the Higher Education regulatory environment (internal and external). Residual risk scores arising from assessment of risks concerning the overall project delivery should be as low as possible and should not exceed 12, providing that residual scores for compliance, information/cyber security and reputational aspects are within the tolerances for those categories.

### Research & Enterprise

The University will be an innovator in developing new knowledge, exploring new areas of research and encouraging and supporting entrepreneurial activity. It accepts the implication that it will explore innovations which will be both successful and unsuccessful and will enable a "safe to fail" environment. It takes an open approach to risk in this area. The University will not pursue any initiative in this area which is incompatible with the Higher Education regulatory environment (internal and external), unethical or which risks damage to our relationships with our partners, suppliers and customers. Residual risk scores arising from assessment of risks concerning the overall project delivery should be as low as possible and should not exceed 12, providing that residual scores for compliance, information/cyber security and reputational aspects are within the tolerances for those categories.

### International Development

The University is ambitious to develop internationally and is willing to consider developing new markets for international student recruitment and delivery of Transnational Higher Education. It is therefore willing to take an open approach to pursue relatively high risk initiatives where these offer the potential for high rewards consistent with our strategy and consistent with our appetite for financial, reputational, information/cyber security and regulatory risks and which do not compromise the University's duty of care to its staff and students, recognising that Court may be willing, on the consideration of a full business case and detailed risk evaluation, to take decisions where a higher degree of reputational risk will be accepted. Residual risk scores arising from assessment of risks concerning the overall project delivery should be as low as

possible and should not exceed 16, providing that residual scores for compliance, financial and reputational risk aspects are within the tolerances for those categories. Where a risk is scored at 16, effective risk action plans should be in place to further reduce the residual risk to 12 or below.

### **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 minimal appetite for any deviation from its standards in these areas. The University also accepts that there are areas of policy affecting staff where it is appropriate to innovate, e.g. to improve working conditions or to support staff recruitment. The University is willing to take a cautious approach to risk in such areas where there is strong mitigation in place and a moderate residual risk. Residual risk scores arising from assessment of risks concerning the overall project delivery should be as low as possible and should not exceed 12, providing that residual scores for compliance, information/cyber security, financial and reputational risk aspects are within the tolerances for those categories.

### **Student Experience**

The University aims to value, support and develop the full potential of our students and to make the University a stimulating, inclusive, supportive and safe place to study which is accessible to students from diverse backgrounds and has a minimal appetite for risks which might jeopardise the quality of the student experience. The University also accepts that there are areas of policy affecting students where it is appropriate to innovate. The University is willing to take a cautious approach to risk in such areas where there is strong mitigation in place and a moderate residual risk. Residual risk scores arising from assessment of risks concerning the overall project delivery should be as low as possible and should not exceed 12, providing that residual scores for compliance, information/cyber security, financial and reputational risk aspects are within the tolerances for those categories.

### **Estates and Infrastructure**

The University is committed to maintaining and improving its estate and IT infrastructure to ensure the long term sustainability of the institution, to support our strategy and to contribute to environmental sustainability. The University is willing to take a cautious approach to risk in this area subject to effective mitigation and consistency with the University's appetite for financial risks. Residual risk scores arising from assessment of risks concerning the overall project delivery should be as low as possible and should not exceed 12, providing that residual scores for compliance, information/cyber security, financial and reputational risk aspects are within the tolerances for those categories.

## **Internal Processes**

The University is committed to continuous improvement in its internal processes to ensure that its business systems, policies and control systems are efficient, effective, support delivery of the strategy and adapt to changes in the regulatory and technological environment. The University accepts that this requires some degree of innovation to deliver with some inherent risk. However, given how critical our internal processes are to our operations, to the student experience and financial control, the University has a minimal appetite for risk in this area and would expect effective mitigation of any risks identified and only accept residual risk in this area which is as low as is reasonably practical. Residual risk scores should be as low as possible and should not exceed 9.

## **Corporate Social Responsibility**

The University regards Corporate Social Responsibility as a key component of our reputation and values our positive impact on society through, inter alia, our commitment to environmental sustainability, ethical purchasing and investment, widening access and community engagement. The University will innovate in this area where it is confident that innovation is low risk and will enhance its contribution to society. Thus our appetite to risk in this area is aligned to that for reputational risk. Residual risk scores should be as low as possible and should not exceed 9.

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**Approved by Court: 13/12/21**

## i Definition of Risk Appetite Descriptors

**Averse:** Avoidance of risk and uncertainty is a key organisational objective and the level of risk accepted should be as low as reasonably practical.

**Minimalist:** Preference for ultra-safe delivery options that have a low degree of inherent risk accepting that may limit the potential for reward.

**Cautious:** Preference for safe delivery options that have a low degree of residual risk accepting that may limit the potential for reward.

**Open:** Willing to consider all potential delivery options and select on a balance of residual risk and delivery of an objective (considering level of reward, value for money etc.)

**Hungry:** Eager to be innovative and choose delivery options offering potentially higher rewards, despite greater inherent and/or residual risk.

## ii Risk Scoring Likelihood and Impact Matrix

| Score | Likelihood     | Description                                       | Impact        | Description  | Strategic  | Operational   | Financial | Reputational  |
|-------|----------------|---|---------------|--|--|---|-----------|---|
| 1     | Rare           | Event may occur in exceptional circumstances      | Insignificant | Little or no impact on school/service activities or objectives.                | Little or no impact on delivery of strategic plan                                | Minimal impact on operations  | <£100k    | Little or no significant adverse publicity or interest from the media, students, parents and other stakeholders |
| 2     | Unlikely       | Event could occur at some time.                   | Minor         | Minor impact on school/service activities or objectives.                       | Limited impact on delivery of strategic plan                                     | Short-term disruption to operations   | <£500k    | Limited unfavourable local media coverage and interest from students, parents and other stakeholders            |
| 3     | Possible       | Event should occur at some time.                  | Moderate      | Disruption to school/service activities or objectives partially achieved.      | Adverse impact of a moderate nature affecting the delivery of the strategic plan | Short-term loss to operations   | <£1M      | Unfavourable local media coverage or interest from students, parents and other stakeholders                     |
| 4     | Likely         | Event will probably occur in most circumstances.  | Major         | Significant impact on school/service activities or objectives.                 | Major impact on delivery of the strategic plan                                   | Major operational impact  | <£5M      | Considerable local/national coverage from the media or interest from students, parents and other stakeholders   |
| 5     | Almost Certain | Event is expected to occur in most circumstances. | Catastrophic  | Unable to provide school/service activities or inability to fulfil objectives. | Adverse significant impact to the delivery of strategic plan                     | University forced to cease business or loss of a significant part of the University | >£5M      | Extensive adverse national media coverage and interest from student, parent and other stakeholders              |

|               |   |      |          |          |        |                |
|---------------|---|------|----------|----------|--------|----------------|
| Catastrophic  | 5 | 5    | 10       | 15       | 20     | 25             |
| Major         | 4 | 4    | 8        | 12       | 16     | 20             |
| Moderate      | 3 | 3    | 6        | 9        | 12     | 15             |
| Minor         | 2 | 2    | 4        | 6        | 8      | 10             |
| Insignificant | 1 | 1    | 2        | 3        | 4      | 5              |
|               |   | 1    | 2        | 3        | 4      | 5              |
|               |   | Rare | Unlikely | Possible | Likely | Almost Certain |

Impact

Likelihood



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### iii Illustrative (Fictional) Examples: Assessment of Proposals in view of Risk Appetite and Tolerances

#### Example 1: Swimming Pool Proposal

- A business case is being developed to seek investment in a swimming pool to enhance the University's sporting facilities in support of the strategy.
- In developing the proposal, the risk appetite for Estates and Infrastructure developments is noted as recognising the commitment to improving the estate subject to pursuing a cautious approach, with safe delivery options and low residual risk being preferred. The proposal is considered on initial consideration to be consistent with the risk appetite statement.
- The overall residual risk scores surrounding delivery of the project are assessed at 9, which is within tolerance for this category.
- The residual compliance, information/cyber security and reputational risks are assessed at 6, so within tolerance for those aspects.
- The residual financial risk of the project is scored at 12, which is outwith the tolerance for financial risks.
- The proposal does not proceed as the risk tolerance threshold conditions cannot be met.

#### Example 2: International Delivery Proposal

- A business case is being developed for a proposal to enter into a teaching delivery partnership arrangement with an education provider in an overseas location in line with the strategy.
- In developing the proposal, the risk appetite for International Development is noted as open with a willingness to consider all potential delivery options and select on balance of residual risk and delivery of objectives, with a willingness to pursue relatively high risk initiatives where they offer the potential of high reward (subject to remaining with tolerances for compliance, information/cyber security, financial and reputational risk). The proposal is considered to be consistent with the risk appetite statement.
- The overall residual risk scores surrounding delivery of the project are assessed at 12, which is within tolerance for this category.
- The residual financial, information/cyber security and compliance risk scores are assessed at 9, and an action plan is in place which is intended to mitigate and reduce the compliance risks further. This is within tolerance for this category.
- Due to concerns around the political environment of the location there is a significant reputational risk associated with the proposal and the residual reputational risk of the project is scored at 12, which exceeds the tolerance for this category.
- As per the risk appetite statement, it is noted that Court may be willing, on consideration of a full business case and detailed risk evaluation, to approve proposals where a higher degree of reputational risk may be accepted.
- Accordingly a full business case and risk evaluation is presented to Court and a decision on whether or not to proceed is sought.