"Every Opportunity for Every

Alpha Trust

Risk Management Procedures

Alpha Trust Policy & Procedures No: AT 3

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Alpha Trust Risk Management Procedures

1. Introduction

Risk management is an important process in the sustainability and development of any organisation. It serves to:

- Protect the existing status of the organisation – by reducing the chance of poor decision-making.
- Support the effective evaluation of significant decisions – by clarifying risks, which in turn minimises the chance of unexpected or unwanted consequences of decisions.

And for organisations operating under the Charities Act, it serves to:

- Facilitate good governance – by providing trustees with the means to control risk within the organisation's strategic planning process.

2. Alpha Trust Risk Management Framework

Risk needs to be managed within the context of adding value to the organisation, whether it is Alpha Trust or one of its individual academies or partners. It is not simply about risk aversion or risk avoidance; risk may also be positive, i.e., is an opportunity. Risk management which is done well also enables effective decision-making and a major part of risk management at Alpha Trust is to support its 'Innovate and Abandon' approach to MAT development.

The aim of all risk management is to reduce the 'gross level' of identified risk to a 'net level' of risk. Net risk is the level of risk that remains after appropriate action is taken to control, or 'mitigate', the risks that have initially been identified. It is the job of Alpha Trustees to form a view as to the acceptability of the net risk. To this end it should be appreciated that there is a distinction between risk 'appetite' and risk 'tolerance'. Risk appetite is the level of risk that is considered acceptable in pursuit of any organisation's objectives and mission and risk tolerance is the amount of risk beyond which Trustees will not accept exposure in any circumstances.

To facilitate the evaluation of what a useful level of risk appetite might be, the risk management procedure allows the prioritisation of risks so that those risks with the greatest negative impact and the highest probability of occurring can be identified. From an operational point of view, this also allows those risks to be dealt with first. When considering risk tolerance, Trustees will consider the impact on the achievement of Alpha Trust's Mission, Vision and Values.

Identifying, assessing, managing and regularly reviewing the possible and probable risks faced by Alpha Trust or by an individual academy in the MAT is a key part of effective governance and contributes to Trustees, and LGB members, demonstrating accountability.

3. Alpha Trust Risk Management Procedures.

The risk management process is straightforward and although there is no universal guide, it follows the same basic pattern in all organisations. The Alpha Trust procedures follow this general pattern and in particular the guidance from the UK government:

- Charities and risk management (CC26). Published 2010. This can be found online at:

https://www.gov.uk/government/publications/charities-and-risk-management-cc26/charities-and-risk-management-cc26

This guidance is relevant to education given the charity status of academies.

There are five steps in the Alpha Trust risk management procedure and they are detailed below. There is also a glossary of terms in Appendix A.

Step 1: Identify Context
The Alpha Trust context is education, MATs, schools and school partners.

Step 2: Identify Risks
Given the context, the second step is to identify potential risks. It is useful to group potential risks into categories, usually four or five. It should be noted that the potential risks for Alpha Trust centrally and for individual academies in the trust will not be the same because they each undertake different operations and activities.

The Alpha Trust has the following risk categories:

- Financial, Legal & External (FLE)
- Operations (OP)
- Safeguarding (SG)
- Governance (GOV)
- MAT expansion (MATEX)

Step 3: Assess and Prioritise Risk
The third step assesses and prioritises risk using systematic evaluation and ranking of the expected likelihood and consequences of specific risks. Whichever methods are used they underpin the creation of the Risk Register**.** (The format of the Alpha Trust risk register is that of the one used by CCHSG.)

<u>Assessment of risk in Alpha Trust</u>
There are a number of methodologies used to calculate risk in risk management plans. However, they are all based on two factors; the likelihood of something happening and the severity of the consequence if it does, i.e. its impact.

Each risk is given a rating between 1 and 5 for:

- **Impact** - If the identified risk happened, how serious would the consequence be? These ratings range from a negligible outcome (1) to extreme/catastrophic (5)
- **Likelihood** - How likely is the identified risk to happen? The ratings range from improbable (1) to almost guaranteed (5).

The Alpha Trust descriptors for the 1-5 scoring for both impact and likelihood are given below.

Impact rating	Impact rating descriptor
1	**Negligible** • No impact on educational outcomes/ finances/ personnel • No complaint likely • No impact on reputation • No impact on organisation operations
2	**Minor** • Slight impact on educational outcomes/ finances/ personnel • Slight likelihood of complaint • Slight impact on reputation • Slight impact on organisation operations
3	**Moderate** • Some impact on educational outcomes/ finances • Adverse impact on personnel likely • Complaint probable / litigation possible • Potential for adverse publicity • Some disruption of organisation operations
4	**Major** • Adverse impact on educational outcomes/ financial status/ personnel • Adverse publicity unavoidable • Complaint probable / litigation probable • Disruption of organisation operations
5	**Extreme/catastrophic** • Significant, long-term impact on educational outcomes/ financial status • Multiple redundancies • Criminal prosecution/ major litigation • Resignation/removal of SLT and Trustees • Trust terminated

Likelihood rating	Likelihood rating descriptor
1	**Improbable** • May only occur in exceptional circumstances
2	**Unlikely** • Expected to occur in a few circumstances
3	**Possible** • Expected to occur in some circumstances/even chance
4	**Very likely** • Expected to occur in many circumstances
5	**Almost guaranteed** • Expected to occur frequently and in most circumstances

At Alpha Trust the experience and professional expertise of senior management and Trustees is used to determine the rating of risk impact and likelihood on the 1-5 scale. The ratings are therefore qualitative assessments which derive from our knowledge and experience of the context, origins and priorities of the constituent organisations of Alpha Trust as well as its overall Mission, Vision and Values.

In the simplest method of assessing risk, the two values are multiplied together to give a **Risk Rating (RR).** However, Alpha Trust follows a different calculation as numerous assessment reviews and studies have shown that low impact risks calculated by a simple multiplication are underestimated when it comes to actual operational success or failure (also in Charities and Risk Management CC26, UK Gov.). This is because one low impact risk may lead to another and another so that the cumulative impact becomes more extreme. If organisations only look to the big risks, they could end up ill-prepared to face the interaction of several adverse events interacting together. To overcome this, risk impact is given a greater weighting by multiplying the two risk ratings together as previously and then adding the impact rating to this number. This is shown in the first table below. To further aid identification of risk impact, the ratings in the table are colour-coded. The colour codes are an at-a-glance tool which enables senior Trust management and Trustees to gauge risk levels and their required actions. The colours and the ratings values should be looked at together when considering further actions. The second table below shows how the colour codes are interpreted.

Alpha Trust risk ratings and risk rating colour codes:

Impact (y)	Risk Rating (RR)					
	Extreme/catastrophic 5	10	15	20	25	30
	Major 4	8	12	16	20	24
	Moderate 3	6	9	12	15	18
	Minor 2	4	6	8	10	12
	Negligible 1	2	3	4	5	6
	(risk assessment: xy+y)	1 Improbable	2 Unlikely	3 Possible	4 Probable	5 Near certain
		Likelihood (x)				

The table is interpreted as follows:

Key:

Combined Score = 16 and above. Unacceptable risk; revise planning or add controls

Combined Score = between 12 and 15. Major risk. Ongoing review of planning and

Combined Score = between 6 and 10. Acceptable risk if all controls in place

Combined Score = below 5. Acceptable risk; no further action

Step 4: Evaluate Risk

Once identified and prioritised, risk has to be managed by evaluating what action needs to be taken to reduce the risk to an acceptable level. There are several response options available for organisations to adopt when managing risk and not all of them are used depending on the organisation's context. For the sake of clarity regarding the type of actions required, the response options for Alpha Trust number four.

Alpha Trust categories of response options:

- **Avoid** – end, withdraw from or do not get involved with a particular activity
- **Reduce** – mitigate (establish and/or improve control or countermeasures) or optimise (i.e., benefit from)
- **Share/Transfer** – outsource to a third party or share risk with multiple parties (joint venture),
- **Retain** – accept the risk but budget for (e.g., reserves) or insure against (usually for net risk, e.g., third party liability, fire, theft, buildings)

Step 5: Risk Management Plan and Risk Register

Once risk has been identified and its impact described, not just rated, appropriate controls and countermeasures need to be selected to mitigate each risk. The risk management plan also needs to detail the personnel in the Trust, including Trustees and governors, who have the responsibility to assess, action, monitor and review the management of risk. These are the 'risk owners'.

Net risk is then estimated based on a qualitative assessment of the mitigating impact of the controls in place and the actions that have been taken. The calculation for this residual risk is the same as for the originally identified gross risk, i.e., weighted towards the risk impact.

Any follow up action that is required needs to be identified, including monitoring, and regular reviews of risk should be scheduled.

Finally, all these elements are codified in the Alpha Trust **Risk Register** which pulls together the key elements of the risk management process. This is reviewed by Trustees at least once a term.

Appendix A: Glossary & Definitions

- Gross risk – the originally identified risk.
- Net risk – the risk that remains after implementing the planned risk response and also includes those risks that are deliberately accepted.
- Risk – uncertainty, whether positive or negative, that will affect the outcome of an activity or intervention.
- Risk appetite – this is the level of risk that an organisation is willing to accept.
- Risk owner: gross risk – the person, or group, responsible for the risk area.
- Risk owner: net risk – the person, or group, responsible for ensuring that the risk response is effective, to plan additional risk response if required and to put it into action.
- Risk response – type of action taken to mitigate or control the risk.
- Risk tolerance – indicates how tolerant an organisation or individuals are to risk. High tolerance means a willingness to take high risk. Low tolerance means an unwillingness to take a high risk unless the benefit is considered to outweigh the fear of the risk.