



RISK MANAGEMENT STRATEGY

(Amended October 2007)

CONTENTS

1. Introduction
2. Benefits
3. Risk Management Framework
4. Risk Review Process
 - Stage 1 – Identification
 - Stage 2 – Categorisation
 - Stage 3 – Assessment
 - Stage 4 – Action Plans
 - Stage 5 – Appetite
 - Stage 6 – Accountability
 - Stage 7 – Risk Maps
 - Stage 8 – Review/Report
 - Stage 9 – Learning
5. Summary
6. References
7. Document Control

1 INTRODUCTION

1.1 This strategy document sets out the Group's approach to the management of risk. It is aimed at enabling informed management decisions in the identification, assessment, treatment and monitoring of risk and provides a framework by which the Group can further develop its capability to meet the demands of effective risk management.

1.2 The Group has adopted the following definitions when it is referring to risk:

'The possibility of beneficial or harmful outcomes and the likelihood of their occurrence in a stated time scale'

'Risk is the threat that an event or action will adversely affect an organisation's ability to maximise stakeholder value and to achieve its business objectives. Risk arises as much from the possibility that opportunities will not be realised as it does from the possibility that threats will materialise or that errors will be made'

1.3 This strategy is essentially about protecting the Group by eliminating complacency and linking the relevant processes described in the Risk Review Process below to the overall business planning processes in place across the Group.

1.4 The Group recognises that many of its activities involve risk and accepts that risk cannot be entirely eliminated, but that action must be taken to ensure that risks are properly controlled and responsibilities are clearly established.

1.5 The Group's Strategic Objectives for managing risk are therefore to:

- Embed risk management into culture and operational activity
- Adopt an integrated systematic approach
- Use established best practice
- Anticipate and respond to external 'forces'
- Ensure responsibilities are clearly assigned for addressing and mitigating risk

2 BENEFITS

2.1 The benefits of effective risk management are unequivocal. In simple terms, it is simply good management.

2.2 Effective risk management is concerned with a consideration of the business objectives of the organisation, and then an assessment of the factors that may prevent or impede these objectives being met.

2.3 The benefits of effective risk management are set out in the diagram below:

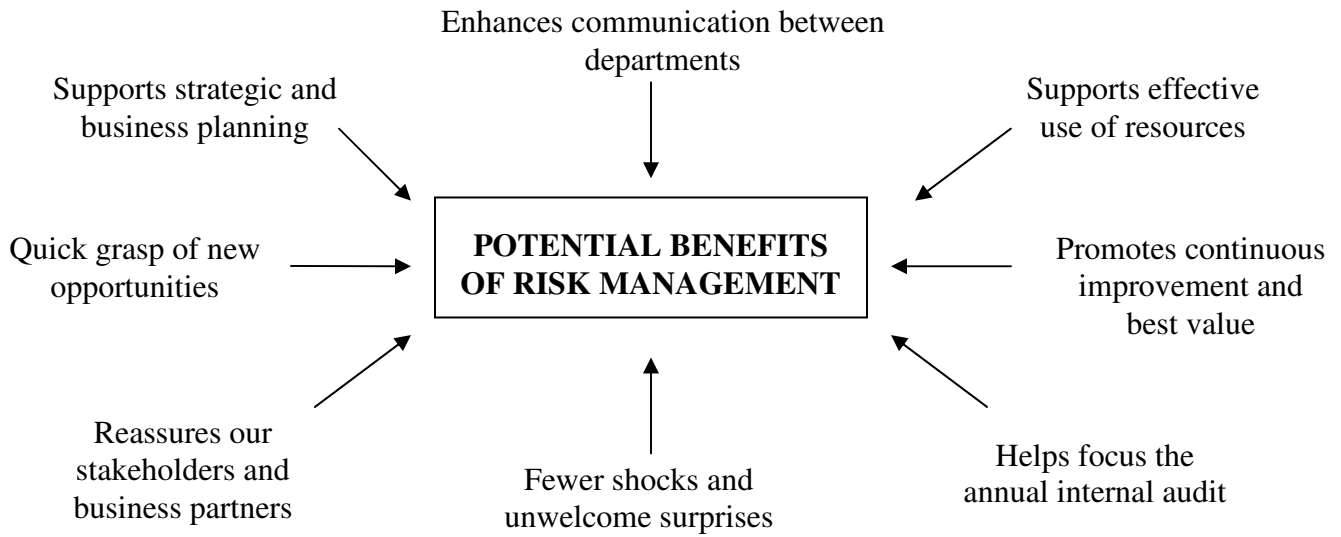


Fig 1 – Benefits of Risk Management

3 RISK MANAGEMENT FRAMEWORK

3.1 The Group will be responsible for maintaining and implementing an effective risk management framework to ensure that the requisite level of assurance and controls are in place. This shall include:

- An overall culture of risk management and control at Board and Executive levels, delegated down through the organisation
- Controls and procedures designed to manage and minimise risks and errors in operations
- Monitoring mechanisms to ensure the controls are working effectively

3.2 Key characteristics of the Group's Risk Management Framework shall include the following:

Culture and control

- Clear allocation of responsibilities in the form of an agreed Governance Document and Terms of Reference for Boards and Committees.
- An established framework for the delegation of authorities throughout the organisation.
- Clearly established lines of responsibility.

Controls and procedures

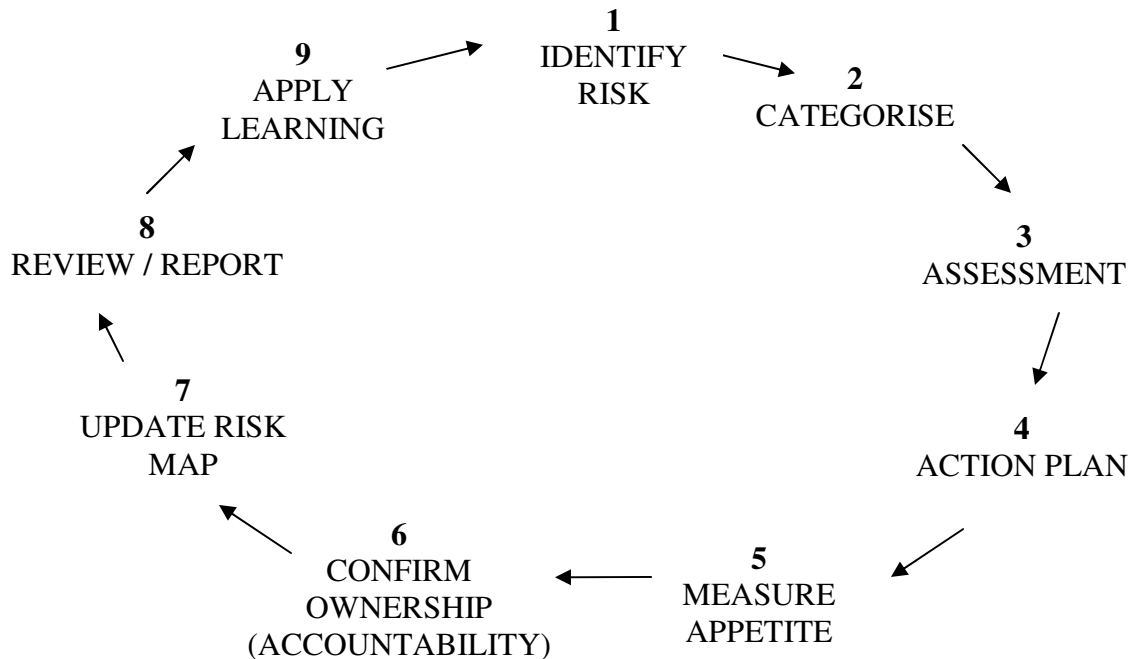
- Maintenance and regular review of Critical Risk Maps for each organisation within the Group and links to annual Business Planning process.
- Regular policy, procedural and Best Value reviews.
- All Board reports to include assessment of risks associated with proposals
- Information and financial reporting systems
- Fraud policy and register

Monitoring controls

- Maintenance of an Internal Audit function – which will include a review of the Group’s approach to risk management at least every 3 years
- Maintenance of an External Audit function
- Annual Reviews against relevant Regulatory Codes
- Annual Board Assurance Statements
- Quality assurance systems in place where appropriate, e.g. ISO 9001

4 RISK REVIEW PROCESS

- 4.1 The flow chart below describes the process of risk management that will be adopted by the Group. This model is designed to guide officers towards effectively achieving the benefits of an effective risk management strategy.
- 4.2 The outcome of the tasks identified from a review of the Group's Critical Risk Maps will further inform the business planning process and will help shape the Group's strategy moving forward.
- 4.3 The Risk Management cycle adopted by the Group involves 9 stages, as follows:



- 4.4 These stages will be explained in more detail below:

Stage 1 – Identify the Risk

The purpose of this first stage is to establish a common understanding of risks. As part of an annual exercise tied into the business planning cycle, each department will review their activities to identify any area of business that could be potentially at risk. Each risk will subsequently be 'registered' on the Risk Map.

Areas to consider as part of this process will include the following:

- Historical experience
- Relevant external environment / external factors
- Existing controls / internal audit findings
- Improvements required, which could include:
 - People
 - Resources
 - Management / organisational structures
 - Communications

Stage 2 – Categorise the Risk

The second stage is the grouping together of similar risks so they can be categorised. The use of PEST analyses as well as considering legal and external environmental change is a useful activity to undertake as part of this process.

The following areas of business activity might be considered for the purposes of categorisation:

Risk Area	Examples
Financial risks	Liquidity risk Interest rate risk
Physical risks	Natural perils to office accommodation and housing properties – fire, flood, storms - resulting in loss of buildings, IT, phones or other facilities
Operational risks	Errors in processing data Project failure (e.g. developments) including mis-specification, late delivery, excessive cost or delivery not to specification Fraud Poor value for money in procurement Legal risk Compliance (breach of regulation)

	Failure to deliver service standards Failure to control costs Outsourcing risks e.g. quality of service and loss of control
Personal risks	Workplace stress Physical safety of front line staff Liability of directors
Strategic risks	Deterioration in economic environment Changes in regulations Changes in Government policy Increased competition Reduced demand Balance of social v. non-social activities
Reputational risk	Adverse publicity

Stage 3 - Assessment

Once grouped together appropriate consultation with relevant parties is to be undertaken so that the risk can be fully understood from all perspectives.

This will include staff, partners and customers for some elements of risk. As part of this process ‘scenario projections’ should be drawn up – showing what the actual threat to the business is, what events will take place to start the damage process and what the consequences and impact will be on the business (damage) – both financial and otherwise.

- Assessment of the **likelihood** of an event occurring
- Assessment of the **impact** severity should the event occur

The Group will apply a systematic process to the assessment of risk which will combine the likelihood and impact in order to produce a risk rating.

The Group recognises that with every risk, no matter how well defined, there will always remain a range of potential impacts, each with an associated probability of occurrence. Consequently, the Group will endeavour to assess an impact which is representative. It will do this by considering the **maximum probable loss (MPL)**, which is the maximum loss that could be reasonably foreseeable, and not such a remote possibility that it may be discounted.

The Group will then assign a numeric assessment of the likelihood and impact of the risk occurring in accordance with the following five point scale:

Likelihood		Impact Severity	
5	Almost certain	5	Catastrophic
4	Likely	4	Major
3	Possible	3	Moderate
2	Unlikely	2	Minor
1	Rare	1	Insignificant

When applying the scoring methodology, consideration will be given to **inherent** and **residual** risks, otherwise referred to as “gross” risks and “net” risks. These are defined as follows:

- gross risk - is the risk assessed on the basis that there are no controls or other risk mitigation in place; and
- net risk - is the risk assessed on the basis that there are controls in place which are functioning effectively

An assessment and presentation of both inherent and residual risks is required in order to ensure due diligence. Controls covering high gross risks require constant vigilance and a more rigorous monitoring procedure than others, even where residual risks are low due to effective controls, since the consequences of high level inherent risks are potentially more far reaching. Each risk identified will therefore

be assessed twice, firstly to assess its inherent risk, and secondly to assess its residual risk.

Once the risks have been identified and assessed, the Group will log these risks in the form of a Critical Risk Map. This register will include the following:

- Specific risk
- Risk assessment (both inherent and residual)
- Risk controls in place
- Mitigation actions required, with timescales where appropriate
- Trend (whether residual risk has increased / decreased)
- Responsibility for managing risk – the risk ‘owner’

The Critical Risk Maps will be reviewed and formally presented to the relevant Board of Management twice yearly.

Stage 4 - Action Plans

Plans to address any risk will include a recommendation on one of the following:

- **toleration** - no further action to be taken as the risk is within the Group’s acceptable risk appetite
- **treat** - actions are needed to control and mitigate the likelihood of a risk occurring and of its potential impact
- **transferrance** – for example, insuring or agreeing with a partner to assume the risk. Note, in many instances legal responsibility may continue to reside with the Group.
- **termination** - stopping the activity altogether, or not commencing it where the risks outweigh the potential benefits to be gained.

The plan will include an indication as to what is needed to achieve a successful outcome, the timescale involved and who will be responsible for the delivery of the plan itself.

It is neither realistic nor possible to totally eliminate risk. It is, however, feasible to develop a systematic approach to the management of it so that adverse consequences are minimised, or in some cases eliminated. All plans should be assessed and endorsed by the Senior Management Team prior to submission to the respective Board of Management. They will look at the proposed actions to ensure they are realistic and achievable. Further consultation may be needed if the Team raise questions about the validity of the action plan.

Stage 5 - Deciding on Appetite

Ultimately, the risk appetite is set by the Board of Management. It is the boundary within which the Group is prepared to work. The key question to be asked by the Board is - what degree of risk can the Group (or the relevant Subsidiary) tolerate? The boundary therefore needs to be defined for each risk activity. It involves a recognition that not all risks can be eliminated, indeed, it is not even desirable for this to be the case.

The Housing Corporation, as part of its strategy, has devised a matrix below which can be used for this purpose. Risk elements identified as severe or major (outside the boundary) are to be flagged as priorities unless the Group can be satisfied that they are 'treated' appropriately.

Risk Appetite Chart

Impact Severity	Multiplier					
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
	Multiplier	1	2	3	4	5
Likelihood		Rare	Unlikely	Possible	Likely	Almost Certain

	KEY	
Severe	20-25	Unacceptable level of risk exposure which requires immediate corrective action to be taken
Major	12-16	Unacceptable level of risk exposure which requires constant active monitoring and measures to be put in place to reduce exposure
Moderate	5-10	Acceptable level of risk exposure subject to regular active monitoring measures
Minor	3-4	Acceptable level of risk subject to regular passive monitoring measures
Insignificant	1-2	Acceptable level of risk subject to periodic passive monitoring measures

In general terms, the Group would not normally wish to tolerate risks that have a residual risk assessment of more than 16, and would wish to monitor closely those residual risks which score more than 12.

However, the Group also recognises that risk is a dynamic concept, and that in some circumstances the Board may wish to accept a greater level of risk due to the potential rewards.

In determining the risk appetite of the organisation, the Group's Boards should give consideration to the balance of the organisation's activities and the relative level of risks that they pose. In particular, decisions should be made with reference to the Housing Corporation's Regulatory Code and its requirement that "social housing assets are not placed at risk by non-social activities". For example, the Board should assure itself that in setting its risk appetite, the expansion of diversified activities do not adversely impact upon its social housing assets and activities such as through the level of risks posed by guarantees carried within Cosmopolitan Housing Association.

Stage 6 - Accountability

The ownership of the risk needs to be checked at this stage. This is the group or person responsible for ensuring the risk is managed and monitored in accordance with this strategy. The nominated person is to be recorded in the relevant Critical Risk Map.

The responsibilities for risk management across the Group may also be noted.

These are set out below as follows:

The Parent Board of Management

The Group Parent has a particular duty to observe the highest standards of corporate governance. It must ensure that all organisations within the Group has a sound system of internal management and control, and delivers value for money from public funds. However, the Parent is not responsible for the operational management of the Subsidiaries. In the context of risk management the governing body should, as a minimum, ensure that there is an ongoing process for identifying, evaluating and managing the risks faced by the Group and should review this process regularly.

The governing body's job, therefore, is to:

1. Set the tone and influence the culture of risk management within the whole Group. For example:
 - Is it a 'risk taking' or 'risk averse' Group?
 - Which types of risk are acceptable and which are not?
 - Is the portfolio of risk suitably balanced between high risk/high return and low risk/low return?
2. Determine the appropriate risk appetite or level of exposure for the Group
3. Actively participate in major decisions affecting the Group's risk profile or exposure

4. Monitor the management of significant risks to reduce the likelihood of unwelcome surprises
 - For example, by receiving regular reports from management focusing on key performance and risk indicators, supplemented by audit and other internal and external reports.
5. Satisfy itself that the less significant risks are being actively managed.
6. Report annually on the Group's approach to risk management, with a description of the key elements of its processes and procedures.

Responsibility of Subsidiary Boards of Management

Ensures Group Strategic priorities are reflected in activities of the company

Chief Executive Responsibilities

Ensuring that a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving the objectives including:

- Communicating the Risk Management Strategy
- Providing leadership and diversity on this process
- Regularly review the risk maps
- Conducting annual review of risk management 'cycle'

Management Team Responsibility

- Co-ordinating risk management process
- Developing and implementing process for maintaining the risk maps
- Endorsing Action Plans

Directors and Managers Responsibilities

- Assessing and communicating risks including judging when a risk should be included in the risk maps.

Risk 'Owners'

- Ensuring that their appointed 'risk' is managed and monitored

All Staff

- Responsible for carrying out appropriate risk management through awareness of the risk maps, and helping with risk identification, assessments and responses.

Stage 7 - Risk Maps

Each organisation within the Group completes a Risk Map, which contains the list of risks for each company, the assessment exercise outcome, confirms who is responsible, and a summary of action necessary.

Stage 8 - Review and Report

Annual and mid year reporting is required. This can lead to further identifications of risk, a training need in risk management and risk identification particularly.

Stage 9 - Learning

The outcome of this risk management cycle is a series of learning points. These will inform policy and procedure and contribute to the recognition of major or severe risk situations. The process will also enable officers to identify and exploit valid opportunities more readily.

The Group's IIP process and appraisal mechanisms are the main vehicles for monitoring and assessing whether learning is being applied throughout the business. All managers therefore need to encompass issues relating to the risk management cycle in their performance and training need assessments.

5 SUMMARY

This Risk Management Strategy is designed to be robust, comprehensive and relevant to the needs of the Group, its employees and its residents. It summarises the Group's approach to Risk Management and the manner in which the Group will identify, categorise, assess, and manage risk related issues across the Group in order that it may achieve its corporate objectives.

The Risk Management Strategy of the Group 'cuts across' all activities of the organisation and should therefore be reflected in all aspects of the Group's activities.

6 REFERENCES

The following documents have been referred to in the production of this Strategy:

- *Housing Corporation Regulatory Code*
- *Housing Corporation Risk Management Topic Papers 1 – 6*
- *Housing Corporation Good Practice Guidance: Managing Risk for Smaller Housing Associations 2006*
- *Housing Corporation Risk Management Strategy 2006*
- *Cosmopolitan Business Plans*

7 DOCUMENT CONTROL

Policy Title	Risk Management Strategy
Dated Created	28 th October 2007
Person Responsible	Group Corporate Services Director
Version	2.1
Date last amended	28 th October 2007
Authorised by	Board of Management (Parent)
Review Period	3 Years
Review Committee	Board of Management
Date of last review	October 2007
Date of next review	October 2010