Risk Management Strategy

Boar Approved:	22 May 2024
Next Review:	May 2027

1.0 RISK MANAGEMENT STATEMENT

Homes for Life promotes the integration of risk management in the governance and management of our business. Risk Management flows through our business at both strategic and operational levels.

2.0 PURPOSE

The purpose of this risk management policy is to ensure that we achieve our stated business and strategic planning aims and objectives whilst reviewing the challenges and risks which may be encountered.

3.0 REGULATORY EXPECTATIONS

The Scottish Housing Regulator (SHR) sets clear expectations about the importance of risk management in its Regulatory Standards of Governance and Financial Management.

Requirements specifically related to risk management are noted below:

Standard 3

The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay.

Guidance

3.1
The RSL has effective financial and treasury management controls and procedures, to achieve the right balance between costs and outcomes, and control costs effectively. The RSL ensures security of assets, the proper use of public and private funds, and access to sufficient liquidity at all times.

3.2
The governing body fully understands the implications of the treasury management strategy it adopts, ensures this is in the best interests of the RSL and that it understands the associated risks.

3.3
The RSL has a robust business planning and control framework and effective systems to monitor and accurately report delivery of its plans. Risks to the delivery of financial plans are identified and managed effectively. The RSL considers sufficiently the financial implications of risks to the delivery of plans.

3.4
The governing body ensures financial forecasts are based on appropriate and reasonable assumptions and information, including information about what tenants can afford to pay and feedback from consultation with tenants on rent increases.

3.5
The RSL monitors, reports on and complies with any covenants it has agreed with funders. The governing body assesses the risks of these not being complied with and takes appropriate action to mitigate and manage them.

3.6
The governing body ensures that employee salaries, benefits and its pension offerings are at a level that is sufficient to ensure the appropriate quality of staff to run the organisation successfully, but which is affordable and not more than is necessary for this purpose.

3.7
The governing body ensures the RSL provides accurate and timely statutory and regulatory financial returns to the Scottish Housing Regulator. The governing body assures itself that it has evidence that the data is accurate before signing it off.

Standard 4
The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose.

Guidance

4.1
The governing body ensures it receives good quality information and advice from staff and, where necessary, expert independent advisers, that is timely and appropriate to its strategic role and decisions. The governing body is able to evidence any of its decisions.

4.2
The governing body ensures that the RSL provides tenants, residents and service users with easy and effective ways to provide feedback and raise concerns, and ensures that the RSL considers this and provides a quick and effective response.

4.3
The governing body challenges and holds the senior officer to account for their performance in achieving the RSL's purpose and objectives.

4.4
The governing body identifies risks that might prevent it from achieving the RSL's purpose and has effective strategies and systems for risk management and mitigation, internal control and audit.

4.5
Where the RSL is the parent within a group structure it fulfils its responsibilities as required in our group structures guidance to:
(a) control the activities of and manage risks arising from its subsidiaries;
(B) ensure appropriate use of funds within the group;
(c) manage and mitigate risk to the core business; and
(d) uphold strong standards of governance and protect the reputation of the group for investment and other purposes.

4.6
The RSL has an internal audit function. The governing body ensures the effective oversight of the internal audit programme by an audit committee or otherwise. It has arrangements in place to monitor and review the quality and effectiveness of internal audit activity, to ensure that it meets its assurance needs in relation to regulatory requirements and the Standards of Governance and Financial Management. Where the RSL does not have an audit committee, it has alternative arrangements in place to ensure that the functions normally provided by a committee are discharged.

4.7
The governing body has formal and transparent arrangements for maintaining an appropriate relationship with the RSL's external auditor and its internal auditor.

Standard 7
The RSL ensures that any organisational changes or disposals it makes safeguard the interests of, and benefit, current and future tenants.

Guidance
Where an RSL is considering organisational or constitutional change, or acquisition or disposal of land or assets:

7.1
The governing body discusses and scrutinises any proposal for organisational change and ensures that the proposal will benefit current and future tenants.

7.2
The RSL ensures that its governance structures are as simple as possible, clear and allow it to meet the Standards of Governance and Financial Management, Constitutional Requirements, and Group Structures guidance.

7.3
The RSL ensures adequate consultation with, and support from, key stakeholders including tenants, members, funders (who may need to give specific approval) and local authorities as well as other regulators**.**

7.4
The governing body is satisfied that the new (or changed) organisation will be financially viable, efficient and will provide good outcomes for tenants.

7.5
The RSL establishes robust monitoring systems to ensure that delivery of the objective of the change and of commitments made to tenants are achieved (for example in relation to service standards, operating costs and investment levels).

7.6
Charitable RSLs seek consent/notify OSCR of changes to their constitution and other changes as appropriate.

7.7
The governing body ensures that disposals, acquisitions and investments fit with the RSL's objectives and business plan, and that its strategy is sustainable. It considers these taking account of appropriate professional advice and value for money - whether as part of a broader strategy or on a case by case basis.

7.8
The RSL complies with regulatory guidance on tenant consultation, ballots and authorisation**.**

7.9
The RSL notifies the Regulator of disposals in accordance with regulatory guidance.

4.0 GENERAL PRINCIPLES

Risk is defined as a probability or threat of damage, injury, liability, loss, or any other negative occurrence that is caused by external or internal vulnerabilities and that may be avoided through preemptive action.

Risk management is defined as the identification, analysis, assessment, control and avoidance, minimisation, or elimination of unacceptable risks.

Risk is inherent in the nature of our business and must be managed in all our activities.

To ensure our risk management activity is focused, relevant and useful it needs to be appropriately structured and embedded in our business.

The approach described within this policy and appended procedure help to identify and evaluate the risks that exist within the business and enable informed decisions on how to manage risk in a controlled and measurable manner.

Risk management is a key component of Homes for Life 's approach to Corporate Governance and will be used to inform our decision-making process.

The approach to risk management is summarised in the risk management circle below:

5.0 ROLE AND RESPONSIBILITIES

The Board: is responsible for risk overall, approving the risk policy and overseeing its implementation. The Board determines risk tolerance and obtains assurance from management that risks are being managed in accordance with this. The Board will review and approve the Risk Register quarterly or more frequently should significant risks arise.

The **Audit and Compliance Committee** play an important role in terms of risk assurance. Their remit includes the examination and scrutiny of the processes that have been put in place to identify, assess and manage risk within Homes for Life and to regularly review the Risk Register.

The Management Team are responsible for ongoing risk identification and management. This takes place within the annual strategic planning process as well as on an on-going basis. Once risks have been identified they are added to the risk register, assessed and managed appropriately.

The Senior Officer also has the responsibility for monitoring of the risk management process, ensuring risks are identified, assessed and managed accordingly.

6.0 CLASSIFICATION OF RISK AND RISK TOLERANCE

Risks are classified as Reputational, Operational, Financial and Legislative risks.

A. Reputational Risks

Those risks that affect how Homes for Life 's stakeholders, partners, customers, staff and the public regard its activities. Reputational risk is *potentially the highest category* of risk and staff should be aware of this type of risk in all of Homes for Life 's activities.

Examples: Include adverse media exposure, risks with a political impact and any risks arising from regulatory failure.

Tolerance: must generally be minimised and the Management Committee must be involved in any decision that deliberately exposes Homes for Life to any <u>material</u> reputational risk.

B. Financial Loss

This is related specifically to the management of Homes for Life 's finances and assets.

Examples: loan covenants breach, risks of loss or improper use of funds.

Tolerance: In financial matters Homes for Life is required to act with probity in all instances and to be fully accountable for all funds and assets with which it is entrusted.

Therefore, risks of impropriety and fraud should be minimised. However, as finance is a resource to be deployed in pursuance of business objectives, it is likely that a degree of risk commensurate with the value of the benefits being sought will be taken. This is acceptable provided that the risk is quantified and decisions on accepting risk are made in accordance with the delegated authority arrangements and provided that the sum of the risks taken in total, will not endanger the operational sustainability and financial viability of Homes for Life .

C. Service Delivery

Those risks associated with the day-to-day management of the business. They include risk to the achievement of the objectives set in the business plan, the successful outcome of investment, developments and projects and the maintenance of the skills and capabilities which Homes for Life needs to carry out its core activities efficiently, effectively and economically.

Examples: Include service delivery, capacity, capability

Tolerance: In operational matters, Homes for Life is required to deliver a high standard of customer service and ensure there is an appropriate supply of social housing through investment and development. In addition, Homes for Life requires to be forward thinking and enterprising in terms of diversification to ensure the sustainability of the core business and the delivery of added value services. Homes for Life must therefore take appropriate risks in a controlled and measurable manner.

Depending on the risk, a strategy to increase, decrease or maintain risk may be appropriate. Where the decision has been taken to accept or maintain the risk, arrangements must be put in place to monitor, on an ongoing basis, any changes to the likelihood or potential impact. This will include risks arising from major investment/development projects.

The formality of these arrangements should be commensurate with the magnitude of the risk and aligned with Homes for Life 's risk management procedures.

D. Legislative

Legislative changes arising from the external environment, not wholly within the Association's control but where action can be taken to mitigate the risk; but could significantly affect our operational sustainability and financial viability.

Examples: Political, Economic, Social Cultural, Technological, Legal, Environmental, Regulation.

Tolerance: External risks arise from the environment in which we operate and are usually beyond the control of the Management Committee or Management Team. If they emerge, they could significantly affect reputation, operational sustainability and financial viability.

Arrangements will be put in place to monitor, on an ongoing basis, any changes to the likelihood or potential impact.

Some risks, particularly those related to handling information could potentially belong to more than one of these categories. In such cases they are classified in accordance with where the risk is greatest (in terms of likelihood and impact), and the risk management strategy determined accordingly.

7.0 RISK MANAGEMENT STRATEGIES

The management of risk must underpin all business activities. The risk management strategy (approach) taken will be specific to each risk and will generally depend on the nature of the risk, the cost of each alternative strategy for managing it and also the Board's risk tolerance.

Risk strategies may be grouped into:

- ***Strategies to decrease risk*** - This is probably the most common strategy. It involves reducing the likelihood that the risk will arise or the impact that the risk may have on the business. This involves identifying ways to control or mitigate against the effects of the risk.

- ***Strategies to maintain risk*** **–** Homes for Life may decide to accept the risk perhaps because the cost of reducing the risk is exceedingly high compared to the risk itself, or because the likelihood that the risk will arise or its potential impact are considered to be low. In such cases, it is appropriate to put in place arrangements to monitor, on an ongoing basis, changes in the likelihood or potential impact. The unknowing maintenance of risk because no one has identified the risk in the first place is *not* an acceptable strategy.

- ***Strategies to increase risk*** – Homes for Life may decide to take advantage of risks and exploit the opportunities created by the risk materialising primarily because the economic benefits from doing so are expected to outweigh the risks that are being taken.

8.0 RISK REVIEW, ASSESSMENT AND SCORING

The Board will review the risk map in full on a quarterly basis.

All Board papers include a section on Risk.

The Management Team will review the Risk Map monthly.

This will ensure that the Risk Map is a useful management tool and is a "living document".

Appendix A: contains the methodology around the scoring, assessment and clarification of risk as well as the template Homes for Life will use for its Risk Register.

9.0 REVIEW CYCLE

This policy will be reviewed at every 3 years or where there has been new legislation, or a change in regulatory requirements or policy guidance.

APPENDIX A

RISK ASSESSMENT AND SCORING

The three principles used for assessing risks are:

1. Ensuring that there is a clear structure to the process so that both likelihood and impact are considered for each risk;
2. Recording the assessment of risk in a way which facilitates monitoring and the identification of risk priorities;
3. Being clear about the difference between inherent (pre-mitigation) and residual risk (post-mitigation).

Homes for Life will use the undernoted scale to evaluate all risk with all being scored in terms of their likelihood and potential impact using the undernoted scale:

Likelihood of occurrence		**Impact on business**	
Score		**Score**	
5	Almost certain	5	Extreme
4	Likely	4	Major
3	Possible	3	Moderate
2	Unlikely	2	Minor
1	Rare	1	Insignificant

The score for the likelihood and impact are then multiplied to give an overall risk assessment.

The aim of the Risk Management policy is not to remove all risk but to recognise that some level of risk will always exist. It is recognised that taking risks in a controlled manner is fundamental to innovation and the building of a can-do culture which is fundamental to the continued success of the Association.

Risk appetite is the amount of risk that the organisation is prepared to accept, tolerate or be exposed to at any point in time. Risk appetite can be expressed as a boundary, above which the organisation will not tolerate the level of risk and further actions must be taken.

Table 1: below details the score outcomes using the above scale.
Table 2: converts the results into a score assessment of High, Significant, Moderate or Low risk.
Table 3: provides examples of the impact on the four key areas.
Table 4: is the template which will be used at the risk register.

Table 1: Score Matrix

Impact	**Score Matrix**					
	5	5	10	15	20	25
	4	4	8	12	16	20
	3	3	6	9	12	15
	2	2	4	6	8	10
	1	1	2	3	4	5
		1	**2**	**3**	**4**	**5**
	Likelihood					

Table 2: Score Assessment

Result	**Risk Score = Business impact x Likelihood**	
	15 or more	Risk score is HIGH
	8-12	Risk score is SIGNIFICANT
	4-6	Risk score is MODERTE
	1-3	Risk score is LOW

Table 3: Risk Key and scoring

Score	Result	Area of impact	Impact
5	Extreme	Reputational	Sustained poor PR media coverage. SHR statutory intervention – potential transfer of assets
		Financial	Loss in excess of £1m
		Service Delivery	Significant disruption to the whole organisation
		Legislative	Legislation has significant impact on whole of the organisation
4	Major	Reputational	Prolonged poor media exposure. SHR statutory intervention
		Financial	Loss £250k - £1m
		Service Delivery	Significant disruption to large parts of the organisation
		Legislative	Legislation has significant impact on one part of the organisation
3	Moderate	Reputational	One-off national media exposure. SHR engagement – regulation plan
		Financial	Financial loss of between £50k and £250k
		Service Delivery	Significant disruption to one part of the organisation
		Legislative	Legislation has moderate impact on one part of the organisation
2	Minor	Reputational	Prolonged local media exposure SHR engagement
		Financial	Financial loss of less than £50k
		Service Delivery	Minimal disruption of the whole organisation
		Legislative	Impact on small number of procedures
1	In-significant	Reputational	One-off local media exposure
		Financial	Loss – negligible financial impact
		Service Delivery	Minimal disruption to one part of the organisation
		Legislative	Minimal legislative impact

Table 4: Risk Register Template example:

			Pre control score					Post controls score			
Risk Ref	Area	Risk identified	L	I	S	Level	Controls	L	I	S	Level
1	**Welfare Reform**	Uncertainty around changes and impact on loss of income through direct payments and non-payment of rent	5	3	15	**High**	Welfare Advice service Staff training on changes Detailed analysis of tenant's circumstances Information leaflets issue	3	3	9	Significant