



## **The Langstane Group**

### **Risk Management Policy**

<b>Senior management team approval:</b>	August 2020
<b>Board / Committee</b>	Board
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<b>Policy Version</b>	<b>Date of Approval</b>	<b>Changes made to Policy</b>
V1	8 April 2015	
V2		New format used, risk appetite matrix attached
V3	15 July 2019	Updated risk rating, updated regulatory framework
V4	7 September 2020	Audit Committee now Audit and Financial Management Committee. Added role of Board of Management to maintain quarterly oversight added Notifiable Events note. PEST analysis replaced by STEEPLE

## **1. Introduction**

Langstane Housing Association is a Co-operative and Community Benefit Society and a registered social landlord with charitable status.

The Langstane Group (the Group) consists of Langstane Housing Association Limited and its wholly owned subsidiaries: Langstane Property Ltd, Langstane Developments Ltd and Langstane Maintenance Ltd in addition to Stockethill Homes Ltd.

This policy applies to all members of the Langstane Group.

The Group is fully committed to the provision of homes and services that meet all legislative and regulatory requirements. In addition, the Group wishes to act in a way that stands it 'shoulder to shoulder' with its peers in demonstrating good practice.

In recognising elements of the Groups' activities are subject to internal and predominantly external influences that may have a direct or indirect impact on the Groups' activities, this Policy sets down guidelines for the assessment of risk.

It is for each individual entity of the Langstane Group to determine their 'appetite' for risk and this document is not intended to replace a risk assessment for new projects – this will be established and presented under separate cover.

The importance of strong corporate governance in managing risk is essential.

## **2. Aims of the Policy**

The main aim of the Langstane Group Risk Management Policy is to ensure a clear and defined method of assessing and documenting risk throughout the Langstane Group is operated. In addition, there are clear areas of responsibility defined and that risk is regularly reviewed by both the senior management team and the Joint Audit and Financial Management Committee with a quarterly oversight thereafter provided to the full Board of Management of Langstane Housing Association.

## **3. Objectives**

The Langstane Group will:

- Provide a clear and consistent approach for all members of the Group to follow when identifying, analysing, controlling and monitoring risk;
- Consolidate risk within the Group allowing improved understanding of the key risks and their wider implications;
- Target areas that have the greatest impact; and
- Undertake more informed risk-taking and decision making.

## **4. Links to other corporate documents and policies**

The Group's Risk Management Policy is linked to a number of corporate documents and policies in particular, but not solely:

- Business Plan;
- 30-year financial projections;
- Business Continuity Plan;
- IT Disaster Recovery Plan;
- Health and Safety Policy;
- Procurement and other relevant corporate Strategies;
- Procurement Policy;
- Treasury Management Policy;
- Financial Regulations; and
- Scheme of Delegation.

## 5. Policy

The Langstane Group is subject to not just legislative requirements but also regulatory requirements as defined by the Scottish Housing Regulator and other regulatory bodies.

Regulatory guidance is provided by the Scottish Housing Regulator in the form of ‘Regulatory Standards of Governance and Financial Management’. There are seven guiding Regulatory Standards:

- “The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users.
- The RSL is open about and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders. And its primary focus is the sustainable achievement of these priorities.
- The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay.
- The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation’s purpose.
- The RSL conducts its affairs with honesty and integrity.
- The governing body and senior officers have the skills and knowledge they need to be effective.
- The RSL ensures that any organisational changes or disposals it makes safeguard the interests of, and benefit, current and future tenants.”

In addition, there are clear guidelines for financial accounting within the Group and both internal and external auditors are employed to scrutinise and report on a range of working practices, not least risk management, designed to demonstrate best practice. This is to ensure the Group is able to anticipate and, as much as is reasonably practical, mitigate risks. At no time does any activity undertaken by an auditor, internal or external, relieve the Board of Management or the senior management team from their responsibility for risk management.

Risk assessment / method statement requirements carried out as part of operating a healthy and safe work place are detailed under separate policies.

## **6. Risk definition and management**

The Scottish Housing Regulator defines risks as “uncertain future events that might prevent an organisation from achieving its business objectives”. This is in keeping with the ISO 31000 definition of risk.

Risk Management is defined as “the culture, processes and structures that are implemented by an organisation to manage potential risks and their adverse effects”.

Risk Management is an integral part of the Langstane Groups’ strategic planning and decision-making processes with new projects risk assessed at viability stage to inform decision making and ensure successful delivery.

Risks that affect the Group’s medium to long-term business objectives are considered strategic risks. Risk that are encountered in the day-to-day delivery of services are categorised as operational risks.

The Langstane Group identifies, analyses, controls and monitors strategic and operational risks without adopting an overly bureaucratic burden that will ultimately affect service delivery.

At no time will the introduction of a risk on a risk register mean the Group does not advance activities in this area. A risk register is not intended to be a reason why innovation is stifled, merely that risks are identified, acknowledged and importantly mitigated against where practical, and appropriately managed.

It is the role of the individual entities within the Langstane Group to determine their risk appetite and whether or not potential risks associated with an activity prove unacceptable.

Risk appetite is defined for the purposes of this policy as the amount of risk the Group is willing to seek or accept in the pursuit of its long term objectives. An agreed risk appetite matrix is attached (see Appendix 1) for guidance.

The Groups’ standard approach will be ‘open’. For higher risk activities the Group wishes to advance, consideration will be given as to how this can be achieved whilst protecting core services. Higher risk activities undertaken by a subsidiary that may negatively impact on the parent company i.e. Langstane Housing Association will be highlighted as soon as practical. Care will be taken to ensure proportionality and to analyse the potential benefits gained.

Risks are initially identified using a SWOT and STEEPLE analysis (see Appendix 2) – identifying strengths, weaknesses, opportunities and threats and looking at social, technological, economic, environmental/ecological, political, legal and ethical issues respectively. These are updated annually.

Outwith this process, risks are identified using an agreed process (see Appendix 3).

The Group will, for ease of process, categorise risks into the following:

- Financial / Economic
- Political
- Legal / Regulatory
- Organisational

Identified risks are held on risk registers – one register detailing strategic risks, another register detailing operational risks. The strategic and, where appropriate, operational risks are linked to the Group's Business Plan and any other relevant strategic plans.

The strategic risk register matrix is colour coded to very clearly identify high, medium and low risk areas. The Group's Business Plan then mitigates medium to high risks where practical to do so.

Once a risk has been identified it is analysed to determine the 'likelihood' and 'impact' on the Group. Where a risk is identified as affecting only one or more members of the Group, but not all, this is highlighted.

'Likelihood' is scored as follows:

- 10 – very remote: not thought likely to occur at all;
- 20 – remote: unlikely to occur in a twenty-year period;
- 30 – may be possible: may occur within a ten-twenty year period;
- 55 – likely: likely to occur in a ten-year time period;
- 110 – very likely: likely to occur within a year, or during the lifetime of the project.

'Impact' is scored as follows:

- 10 – Insignificant: little or no impact on the day-to-day operation of the Association;
- 20 – minor: there would be some disruption to the day-to-day operation of the Association but the impact would be short term and nothing that affects the overall viability of the Association;
- 50 – moderate: there would be an impact on the Association but one which could be tolerated without a major impact on operations and / or the impact would be expected to last between one to three years;
- 70 – major: There would be a significant impact on the ability of the Association to trade as per the Business Plan and / or a significant impact would last three to five years;
- 155 – catastrophic: the viability of the Association may be at risk and / or a significant impact would be expected to last at least five years.

Impact									
catastrophic	155	1550	3100	4650	8525	17050			<b>Status:</b> Assessed Increasing No change Decreasing Closed  <b>Overall impact:</b> multiply above
major	70	700	1400	2100	3850	7700			
moderate	50	500	1000	1500	2750	5500			
minor	20	200	400	600	1100	2200			
insignificant	10	100	200	300	550	1100			
Score		10	20	30	55	110			
		Very remote	Remote	Possible	Likely	Very likely			
<b>Likelihood</b>									

Using the above will keep all risks with the potential to have a catastrophic impact on the Group within focus, and indicate which risks pose a greater overall concern for the Group.

The Group analyses and documents which part(s) of business the risk impacts on, for example:

- Financial – where the Group could suffer a financial loss / penalty;
- Regulatory – where the risk could impact on the Group’s relationship with regulatory bodies;
- Reputation – where the reputation of one or all parts of the Group could be negatively affected; and
- Organisation (e.g. service delivery) – where the ability of the Group to continue the same level of service delivery is negatively affected.

Thereafter mitigating actions are identified, providing an overall combined score for ‘likelihood’ and ‘impact’.

See Appendix 3 for an example of the strategic risk register and matrix.

## 7. Assurance

Assurance is an important function of governance in any organisation. The Board of Management of Langstane Housing Association is provided with accurate and current information about the efficiency and effectiveness of the Group’s operations and the status of its compliance with regulatory and statutory obligations.

The Group measures assurance levels through the use of assurance indicators. These provide information on:

- Whether or not assurance can be provided by independent or in-house scrutiny
  - Yes
  - No;
- The date of any assurance provided;
- The assurance level
  - Full assurance
  - Reasonable assurance
  - Limited assurance
  - No assurance;

- The assurance type
  - External audit
  - Internal audit
  - In-house assessment
  - External assessment
  - No assessment.

Links to the Group's Business Plan are made.

Where areas of risk, even after mitigation action is taken, remain yellow, amber or red, a timescale and methodology for gaining assurance / review will be determined by Audit and Financial Management Committee.

## **8. Monitoring and review**

All Board of Management members and employees are required to have a knowledge and understanding of risk management and how risks can impact on the Groups' activities. This is carried out through regular awareness raising sessions and training.

The strategic risk register is reviewed quarterly by the senior management team with recommendations presented to the joint Audit and Financial Management Committee for approval unless presented to the Board of Management of Langstane Housing Association.

Reports are presented at the first Audit and Financial Management Committee meeting after each quarter. Reporting in the interim period is by exception where a significant risk is identified. Thereafter the approved strategic risk register will be distributed to all Board members.

The operational risk register is reviewed on a quarterly basis by departmental managers. Any significant risks are identified to the senior management team as soon as reasonably practical.

It is the role of the internal audit function to ensure the risk management policy is applied across all areas of operation including strategic planning, performance management and project management. This is monitored by the Group's joint Audit and Financial Management Committee.

Board of Management will receive a quarterly oversight of the Group's most significant strategic of risks.

This policy will be reviewed in 2021 then three-yearly or where material changes in legislative, regulatory or good practice requirements warrant a changed approach.

## **9. Notifiable events**

Any notifications made to the Scottish Housing Regulator will be made in keeping with the Group's Notifiable Events policy and Scheme of Delegation.

## Risk appetite

## Appendix 1

	<b>Averse</b>	<b>Minimalist</b>	<b>Cautious</b>	<b>Open</b>	<b>Challenging</b>
	Avoidance of risk and uncertainty is a key Group objective	Preference for ultra-safe approach that has a low degree of inherent <sup>1</sup> risk and potential for limited reward	Preference for safe approach that has a moderate degree of inherent risk and may only have limited potential for reward	Willing to consider all options and choose the one that is most likely to result in success while also providing an acceptable level of reward	Eager to be innovative and choose options offering potentially higher business rewards despite greater inherent risk
<b>Category of risk</b>	<b>Example behaviours when taking key decisions</b>				
<b>Financial / Economic</b>	Avoidance of any financial loss is a key objective  Only willing to accept the low cost option	Only prepared to accept the possibility of very limited financial loss if essential  Value for money is a primary concern	Prepared to accept some limited financial loss  Value for money is the primary concern but also willing to consider the benefits	Prepared to invest for reward and minimise the possibility of financial loss by managing any risks to a tolerable level  Value and benefits considered (not just the lowest cost option)	Prepared to invest for the best possible reward and accept the possibility of financial loss (although controls are in place)  Resources allocated without any firm guarantee of return
<b>Legal / regulatory</b>	Avoid anything that could be challenged, even unsuccessfully  Minimal tolerance for any decisions that could lead to scrutiny of the Association	Want to be very sure any challenge would be unsuccessful  Tolerance for risk taking limited to those events where there is no chance of any significant	Limited tolerance for taking a chance  Want to be reasonably sure any challenge would be unsuccessful  Tolerance for risk taking limited to those events where there is little	Challenge would be problematic but likelihood is it would be unsuccessful  The gain will outweigh any challenge  Appetite to take decisions with potential	Chances of unsuccessful challenge are less certain but success would be significantly advantageous  Appetite to take decisions that are likely

	<b>Averse</b>	<b>Minimalist</b>	<b>Cautious</b>	<b>Open</b>	<b>Challenging</b>
		repercussions	chance of any significant repercussions should there be a failure	to expose the Association to additional scrutiny but only where appropriate steps have been taken to minimise any exposure	to bring scrutiny of the Association but where potential benefits outweigh the risks
<b>Organisational</b>	Defensive approach to meeting objectives – aim is to maintain existing status quo rather than innovate  Priority for tight management controls and oversight with limited devolved decision making authority	Innovation always avoided unless essential  Decision making held by senior management	Tendency to remain with the status quo, innovation generally avoided  Decision making generally held by senior management	Innovation supported with demonstrable improvements  Responsibility for non-critical decision making may be devolved	Innovation pursued with a desire to ‘break the mould’ and challenge current working practices  High levels of devolved decision making – management by trust rather than control
<b>Political</b>	No desire to change policy at a local and national level	Limited input into consultation opportunities	Limited input into consultation opportunities	Maximise the opportunity to influence decision making  Attend strategic and operational events to influence how services are delivered locally and nationally	Highlight challenges at every opportunity  Campaign and lobby decision makers where an opportunity arises

<sup>1</sup> An inherent risk is a risk that is impossible to manage or transfer away or a risk that exists when no controls have been put in place

**SWOT (strengths, weaknesses, opportunities and threats) analysis**

S STRENGTHS	W WEAKNESSES	O OPPORTUNITIES	T THREATS
<p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>Financial strength</li> <li>Location and condition of stock</li> <li>Quality of governing body members</li> </ul>	<p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>Cost base</li> <li>Pension cost increases</li> <li>Information systems outdated</li> <li>Customer satisfaction levels</li> </ul>	<p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>Technological advances</li> <li>Diversification of services</li> </ul>	<p><b>Examples:</b></p> <ul style="list-style-type: none"> <li>Changed legislation</li> <li>Maintenance costs</li> <li>Availability of development sites</li> <li>Environmental obligations</li> </ul>

**STEEPLE (social, technological, economic, environmental/ecological, political, legal and ethical) analysis**

S	T	E	E	P	L	E
SOCIAL	TECHNOLOGICAL	ECONOMIC	ECOLOGICAL	POLITICAL	LEGAL	ETHICAL
<b>Examples:</b> Demographic changes Mobility – physical Mobility - social Lifestyle changes Wealth distribution Equality Education Opportunity	<b>Examples:</b> Changes in mobile technology Changes in IT New IT investments and developments	<b>Examples:</b> Economic growth Unemployment levels Inflation Interest rates Living wage Pensions (DB) Affordability	<b>Examples:</b> Environmental regulations Sustainability Flooding Carbon footprint Weather patterns	<b>Examples:</b> Stability / uncertainty Changes in policy	<b>Examples:</b> Compliance burdens Tax changes H&S legislation Procurement legislation Employment rights	<b>Examples:</b> Homelessness Affordability Quality of life / home Equality Opportunity Human rights Sustainability Security Rural / remote schemes

