Risk Management Policy & Framework

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INTRODUCTION

'Risk management' is the process by which risks are identified, evaluated, controlled and monitored. In this respect it is important that the Board, as the governing body, has a clear understanding of the objectives of the organisation and the risks that may de-rail delivery of these objectives.

This risk management strategy is built upon the following fundamental principles:
- it recognises that ultimate responsibility for risk management lies with the Board;
- the management of risk is a continuous process involving regular monitoring and where necessary re-tuning and;
- the management of risk should be subjected to external scrutiny on a periodic basis.

The regulatory framework for social housing requires that organisations such as EPIC have an effective risk management and internal controls assurance framework.

This strategy is reviewed on an annual basis by EPIC's Audit Committee. The results of this review are reported to the Board of Management.

BENEFITS OF EFFECTIVE RISK MANAGEMENT
Effective risk management has the potential to deliver a wide range of benefits, including:

- Improved Strategic Management
  - Better informed strategic objectives;
  - risk based audit; and
  - enhancement of reputation through anticipating and responding better to threats and opportunities.
- Improved Operational Management
  - Pro-active approach to addressing legislative/regulatory requirements;
  - improved health and safety; and
  - enhanced resource allocation.
- Improved Financial Management
  - Improved management of the business plan;

- o enhanced financial control; and
- o better informed financial decision making.
• Improved Customer Focus and Service
  - o Reduced service disruption to customers;
  - o enhanced public safety; and
  - o new and innovative solutions to service delivery.

Overall, our approach to risk will provide assurance to the Board that the plans and strategies to mitigate and manage the key risks identified in the Business Plan document are effective; and support the Board in achieving the following key objectives:

- Growth and diversification of our housing offer.
- Improving efficiency and achieving value for money.
- Delivering high quality homes and services.
- Excellence in governance and future viability.

THE RISK MANAGEMENT CYCLE

SETTING A RISK STRATEGY

Risk can be any event which may affect an organisation's ability to meet its objectives or cause it to incur unexpected losses. Such events may affect the organisation's ability to compete in its markets, as well as maintain its financial strength, positive public image and the overall quality of its people and services.

Risk can be responded to differently for example:
- **Transfer the risk** – by insuring against it;
- **Tolerate the risk** - where the risk is regarded as one that the organisation can legitimately bear and is often merely part of doing business as usual in the social housing sector e.g. having regard for local conditions in managing voids on individual estates;

- **Treat the risk** - where a risk may be at an otherwise unacceptable level but can be managed within risk tolerances. In these instances it is necessary to establish control procedures to reduce the level of risk to within acceptable levels, and set in place procedures to monitor the effectiveness of risk management. e.g. changes in interest rates or change the way in which the organisation carries out its business with a view to reducing the risk e.g. contracting out a service which is not believed to be a core activity such surveyors;
- **Terminate the risk** - where the level of risk is unacceptable and the organisation does not believe it can, or wants to manage it down to an acceptable level e.g. withdrawing from a particular activity which is not considered appropriate, such as development for sale at market value;
- **Recovery plan** - in the case of certain disaster scenarios, e.g. loss of an office due to a catastrophe, it may not be possible to adequately reduce the risk or to eliminate it. In these cases the response is to have a Business Continuity Plan in place which will recover the situation as quickly and as cost effectively as possible. Insurance is often taken out to cover these areas of risk.

EPIC'S RISK APPETITE STATEMENT
1. Introduction

EPIC is a registered charity which is committed to providing good quality housing for people on low incomes; this obligation is regulated by the Homes and Communities Agency. EPIC's ability to effectively fulfil this objective rests, among other things on its core values; fairness, respect, understanding, integrity, teamwork and excellence.

This Statement considers the most significant risks to which EPIC is exposed and provides an outline of the approach to managing these risks.

A description of the terms used to describe our risk appetite can be found at the end of this Statement.

2. General Statement of Appetite

EPIC faces a broad range of risks reflecting its responsibilities as a not for profit social landlord. These risks include those resulting from its responsibilities in the areas of financial viability, customers and governance as well as its day-to-day operational activities.

The risks arising from EPIC's strategic goals and objectives to fulfil our responsibilities can be significant. These risks are managed through detailed processes that emphasise the importance of integrity, intelligent inquiry, maintaining high quality staff, and customer accountability.

EPIC is also exposed to some significant financial risks, largely due to its commitment to deliver high quality homes and services; and provide an intelligent housing service which creates value for the household and the wider community.

EPIC's approach to planning and delivery is to only make promises we can keep, we use careful scenario planning and ensure that we allocate the right resources at the right time.

In terms of operational issues, EPIC has no more than a cautious appetite for risk. EPIC makes resources available to control operational risks to acceptable

levels. EPIC recognises that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities, and recognises that some risk is often necessary to foster innovation within business practices.

3. The Risk Management Framework

EPIC's risk management framework seeks to ensure that there is an effective process in place to manage risk across the business. Risk management is integral to all aspects of our activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasises careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at both an executive level ('top-down') and business level ('bottom-up'). The Risk Management Working Group, which is made up of a cross section of staff; and members of both the Audit Committee and Board of Management is chaired by the Finance Director. This team meets at least four times a year and provides a report on its activities to the Audit Committee which in turn reports risk to EPIC's Board of Management twice a year. This process ensures that the Board of Management is fully involved in the process; understands the scale and timing of key risk exposures, enabling them to decide how and when the necessary decisions are taken.
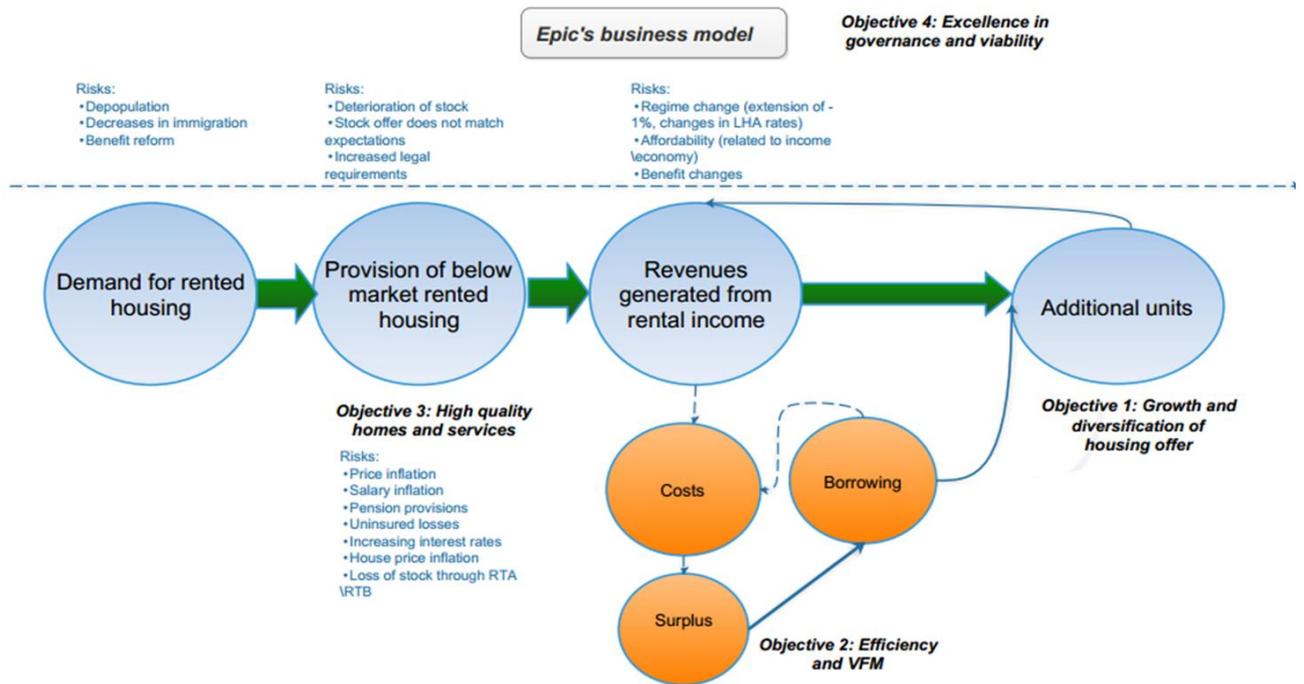
EPIC's framework consists of the following seven key elements; providing an ongoing mechanism for the management of risk;

1.   Linking risk management to business planning.
2.   Reviewing business activities.
3.   Ongoing risk identification and monitoring.
4.   The role of the Board.
5.   The role of executive management.
6.   Operational management.
7.   The part played by internal audit.

This strategy is to be considered in correlation with the Stress Testing and Business Reporting processes and the Asset and Liabilities Register. Stress testing is an integral part of business planning, performance monitoring and risk management.

EPIC's framework is directly linked to EPIC's Business Model; illustrated on the following page. The Business Model maps and aligns EPIC's:

•   Key objectives.
•   Key risks.
•   Mitigation action/s.

Epic's business model

Objective 4: Excellence in governance and viability

Risks:
• Depopulation
• Decreases in immigration
• Benefit reform

Risks:
• Deterioration of stock
• Stock offer does not match expectations
• Increased legal requirements

Risks:
• Regime change (extension of 1%, changes in LHA rates)
• Affordability (related to income \economy)
• Benefit changes

Demand for rented housing

Provision of below market rented housing

Revenues generated from rental income

Additional units

Objective 3: High quality homes and services

Risks:
• Price inflation
• Salary inflation
• Pension provisions
• Uninsured losses
• Increasing interest rates
• House price inflation
• Loss of stock through RTA \RTB

Costs

Borrowing

Surplus

Objective 1: Growth and diversification of housing offer

Objective 2: Efficiency and VFM

4. Coverage

EPIC's attitude embedded by our Board of Management and staff, towards its key customer strategy, financial viability, governance and operational risks is described below.

4.1 People and Culture Risks

EPIC's significant people and culture-related risks include:

• **Calibre of People** – EPIC relies on motivated and high quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for any failure to meets its customer needs through our collective competencies, knowledge and skills is minimal.

• **Conduct of People** – EPIC expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve. There is no appetite for behaviours which do not meet these standards. EPIC takes very seriously any breaches of its Code of Conduct; as set out in the Staff Handbook.

Health & Safety – EPIC have a duty of care for our staff and for staff not to endanger other members of staff under the Management of Health & Safety Management Regulations 1999. EPIC aims to create a safe working environment for its entire staff, where people are protected from physical or psychological harm. It has a no appetite for practices or behaviours that lead to staff being harmed while at work.

4.2 Strategic Customer Risks

EPIC aspires to be an excellent housing provider, measured by the quality and effectiveness of its operations. This requires on-going development and innovation in its operations through strategic initiatives. EPIC has a minimal appetite for threats to the effective and efficient delivery of these initiatives. It recognises that the actual or perceived inability to deliver strategic initiatives could have a significant impact on its ability to achieve its objectives as well as its reputation.

EPIC's Senior Management Team meets regularly to discuss major service initiatives. A framework is in place providing a monthly review of strategic performance, risks and service improvement plans to ensure that these initiatives are managed and reported on a consistent basis.

4.3 Financial Risks

EPIC holds social housing stock providing amenities for customers in necessitous circumstances, for which it will borrow against to finance the maintenance of existing and the delivery/development of additional affordable social housing. The homes we provide are critical to the sustainability of the local community and with that in mind EPIC has a minimal appetite for any budget variance. However, we accept with delivery/development projects where we have controls and contracts which govern the cost EPIC has an open appetite to development risk. We acknowledge that on occasions it is necessary to accept a level of risk with delivery/development in return for greater benefit, it is our aim to provide good quality housing, achieving value from what we do and keeping costs down. To achieve this we will always protect our existing social housing stock through our management of financial risks.

4.4 Governance

EPIC's governance arrangements can be described as the overall management approach through which the Board of Management and Senior Management Team direct and control the entire organisation. It governs through a combination of rules, policies, procedures and training which establish legislative compliance and embed the strong social values of EPIC. The Board of Management retains overall responsibility for risk management and determining EPIC's tolerance of risk. The detailed scrutiny and evaluation of risk is delegated to the Audit Committee. The Board of Management, supported by the Audit Committee and the Senior Management Team agree an annual assurance programme; ensuring that effective internal controls and appropriate systems for business assurance are in place. This practice provides and promotes the internal control framework and safeguards that good governance and risk management are embedded within the organisation. The recommendations emerging from this process are routinely implemented within timescales agreed by the Audit Committee. Governance activities ensure that critical management information reaching the Board of Management and Senior Management Team is sufficiently complete, accurate and timely to enable appropriate management decision making, and provide the control mechanisms to ensure that strategies, directions and instructions from management are carried out systematically and effectively. There is no appetite for a breach of the organisation's governance arrangements.

4.5 Operational Risks

EPIC's appetite for specific operational risks is detailed below. Risks are carefully analysed in all operational activities, including ensuring that the benefit of the risk control measures exceeds the cost of these measures.

(i) Information Technology
Information Technology (IT) risks cover both daily operations and on-going enhancements to EPIC's IT systems. These include

- Processing – Prolonged outage of a core IT system: EPIC has a minimal appetite for risks to the availability of systems which support its critical business functions including those which relate to property services, the contact centre and financial management. Maximum recovery times have been identified and agreed.
- Security – Cyber-attack on online systems or networks: EPIC has a minimal appetite for threats to EPIC assets arising from external malicious attacks. To address this risk, EPIC aims for strong internal control processes and the development of robust technology solutions.
- On-going Development: The implementation of new technologies creates new opportunities, but also new risks. EPIC has a cautious appetite for IT system-related incidents which are generated by poor change management practices.

(ii) Fraud and Corruption
EPIC has no appetite for any fraud or corruption perpetrated by its staff. EPIC takes all allegations of suspected fraud or corruption very seriously and responds fully and fairly as set out in the Code of Conduct.

(iii) Property Services
EPIC has no appetite for any breach of gas or asbestos or regulations that may endanger human life. EPIC takes its responsibilities to provide a duty of care to our customers and tenants very seriously and provides clear policy and procedural guidance to ensure we discharge our duties in accordance with relevant legislation and best practice.

(iv) Compliance
EPIC is committed to a high level of compliance with relevant legislation, regulation, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. EPIC has no appetite for deliberate or purposeful violations of legislative or regulatory requirements.

(v) Information Management
EPIC is committed to ensuring that its information is accurate, relevant, up to date and well managed in accordance with legislative and business requirements. It has a minimal appetite for the compromise of processes governing the use of information, its management and publication. EPIC has no appetite for the deliberate misuse of its information.

5. Implementation of the EPIC's Risk Appetite

The Senior Management Team is responsible for the implementation of, and compliance with this Statement.

5.1 Communication
EPIC's Risk Appetite Statement is published on the intranet and our website.

5.2 Risk Assessments
Each department contributes to the central Risk Register of the business risks it faces in its day-to-day operations and the control framework which is in place to mitigate risks.

This Register includes risks from within EPIC and external sources all of which are reviewed regularly. The Risk Register is also updated when there are key changes in policies, structures or functions.

All risks which are judged as unacceptable at departmental level are reported to the Senior Management Team and actions to reduce and mitigate these risks to acceptable levels are identified and reported on the Risk Register which is reviewed by the Audit Committee and Board of Management.

Departments are delegated responsibility to manage their specific operational risks in a manner which is consistent with this Statement and appropriately escalating any risks outside appetite or agreed tolerance levels. Departmental risk appetite settings for each risk in the Risk Register must also be consistent with this Statement.

5.3 Reporting & Monitoring
This Statement is complemented by a number of specific risk metrics which assist management in assessing whether outcomes are consistent with EPIC's risk appetite.

Performance against these metrics is tracked and reported to the Senior Management Team on a regular basis.

Reporting systems are maintained through management processes to provide assurance that the risk appetite is effectively incorporated into management decisions.

Feedback on the implementation of the EPIC's Risk Appetite Statement is provided through the Risk Management Working Group.

6. Review

This Risk Appetite Statement will be reviewed in conjunction with EPIC's Risk Strategy. This review is coordinated by the Risk Management Working Group and Senior Management Team. Proposed changes to the Risk Appetite Statement are considered by EPIC's Board of Management following review by the Audit Committee.

7. Risk Appetite Descriptions

Averse or 'No Appetite' - Avoidance of risk and uncertainty is a key organisation objective.
Minimal - Preference for ultra-safe options that are low risk and only have a potential for limited reward.
Cautious - Preference for safe options that have a low degree of risk and may only have limited potential for reward.
Open - Willing to consider all potential options and choose the one most likely to result in successful delivery, while also providing an acceptable level of reward and value for money.
Hungry - Eager to be innovative and to choose options offering potentially higher business rewards, despite greater inherent risk.

'Establishing responsibilities'

Responsibility for risk management rests ultimately with the governing body, the Board of EPIC.

All reports to the Board of Management recommending new initiatives and/or changes to existing policies will identify any associated risks and actions to be taken to mitigate these risks including the impact of not taking the action recommended.

Within EPIC, the Board of Management has delegated responsibility for overseeing the effective management of risk to the Audit Committee, who in turn have assigned the organisation's Senior Management Team with responsibility for day to day management of risk.

All levels of staff should be and feel that they are responsible for the management of risk in their area.

In order to further embed risk identification and risk management within the organisation, a Risk Management Working Group has been convened; they meet on a quarterly basis and discuss the risk register and act as a conduit for referring new risks identified at team meetings to the Audit Committee.

The Risk Management Working Group also ensures that any new or emerging risks are considered and added to the register and in addition, that superseded or redundant risks are proposed for removal from the register.

This also serves as a link in the risk management communication chain, linking the Senior Management Team who report to the Audit Committee, to other staff within the organisation.

'Identification of risk'

The Board, Audit Committee and Senior Management Team should have an overall feel for the risks faced by EPIC. It is important that the identification and assessment of risks is conducted in a structured way, this will ensure that:

- all major risks are identified;
- the evaluation of risk can be set in the context of the overall activities of the organisation;
- risks can be prioritised to ensure that management and resources are focused on the critical areas.

'Prioritising risk'

Following the identification of risk, the process involves the assessment of the risks, by multiplying the likelihood by the impact in order to assess which are critical. Risks change over time and, therefore, risk assessment should not be a one-off exercise but a regular review process.

'The review process'

To be effective, risk management must continually refocus on the changing opportunities and risks facing the organisation. Good individual controls do not necessarily add up to being in control. Risk management should be subject to Board/Audit Committee/Senior Management Team scrutiny. A periodic independent review of risk management should be undertaken by an external body such as internal or external audit or another suitable consultant. The results of such a review should be considered by the Audit Committee and then reported to the Board.

THE COST OF RISK

Service organisations have to view their risks from two perspectives. First there are the direct costs and additional impact that a risk event could have on an organisation. Second, there are the costs and impact of such an event on the community that they serve.

	Tangible Costs	**Intangible Costs**
Cost of Control	- Insurance - Audit - Inspection regimes - Maintenance programmes - Training - Supply chain - management - Budget management	- Goodwill - Reputation - Morale - Absence and health issues - Positive performance - Leadership and good management
Cost of Risk	- Court claims, legal expenses - Clean up costs - Fines from service failure - Credit costs - Strike costs - Penalties - Time and costs of change	- Reputation damage - Uncertainty - Loss of confidence - Loss of capacity - Failure to achieve objectives

WHAT RISKS COULD EPIC FACE?

Examples of the sorts of risk which EPIC, or indeed any housing association, could face include:
- Changes in Government policy;
- Significant changes in interest rates/inflation;
- Increased competition;
- Significant shift in tenant needs;
- Failure of a new venture;
- Incomplete information on housing demand;
- Incorrect project appraisal assumptions;
- Onerous contract terms and conditions;
- Fraud;
- Inappropriate treasury instruments;
- Local resident disturbances;
- Abuse of vulnerable residents;
- Unaffordable rents;
- Undue or inappropriate Board Member influence
- Staff disputes; and
- Loss of key staff.

EPIC can never fully eliminate the above risks. However, the organisation needs to have robust risk management procedures to mitigate their effect.

PRACTICAL IMPLEMENTATION OF THE RISK MANAGEMENT STRATEGY

All staff within EPIC are to be encouraged to identify actual and potential risks to the organisation. This is to be done through;

- team meetings, where risk identification and management should be a regular agenda item;
- the 'Risk Management Working Group' (see under 'Establishing Responsibilities');
- the Senior Management Team should regularly consider the issue of risk/risk management.

All risks will be recorded on a standard pro-forma (see Appendix I) and the identification of the level of risk i.e. High, Medium or Low will be carried out using the matrix adopted by EPIC' Audit Committee (Appendix II).

Risks will be considered by the Audit Committee at each meeting and by the Board of Management twice a year.

The Audit Committee will also within its annual report to the Board make specific reference to the work undertaken on risk management.

RESPONSIBILITIES WITHIN THE RISK MANAGEMENT STRATEGY

- **Overall responsibility for risk in EPIC:**
  EPIC' Board of Management.

- **Responsibility for initiating, co-ordinating and maintaining the risk management strategy:**
  The Audit Committee.

- **Responsibility for overseeing the effective implementation of the risk management strategy and for ongoing monitoring:**
  The Senior Management Team with input from Internal Audit and the Risk Management Working Group.

- **Responsibility for day to day management of risk:**
  The Senior Management Team, Service Managers, Risk Management Working Group and all members of staff.

RISK MANAGEMENT TRAINING

In view of the importance of effective risk management, it is proposed that regular training of the Board, the Senior Management Team, and the association's Risk Management Working Group takes place.

In addition, 'risk awareness' is to be included as part of the induction training for all new employees.

Extract from the Risk Register

Risk Ref	Type of Risk	Risk Description	Actual Risk	Effect & Impact on Company Objectives	BEFORE MITIGATION				Mitigation Action	AFTER MITIGATION						
					Risk Appetite	Risk Status	No Mitigable Event / KPI / P1			Status after Mitigation	Risk Manager	Risk Status	Risk Treatment	Assurance Report Date	Notification of Concern	Exception Point
BUSINESS CRITICAL RISKS																
BC1	Key Risk - Operational	Delivering funded contracts	• Homes and Communities Agency Grant Programme slippage • Stoke-on-Trent City Council Grant Programme slippage	• Reputational damage, potential adverse effect on the financial viability of the business • Rising house prices • Failure to achieve key objectives 1 - Growth and diversification of our housing offer; 2 - Improving efficiency and achieving value for money; 3 - Delivering high quality home and services	Minimal	L:3 I:3 T:8	GD1, GD9, GD10		• Allocate additional staff resource to growth programme • Agree re-profiling of programme with grant funders • Quarterly updates to EPIC's Board setting out mitigating actions required • Monthly monitoring by Management Team and Notification of Concern mechanism	L:1 I:2 T:2	Director of Housing	⟷	Tolerate			

	Likelihood					
		High (3)		Medium (2)		Low (1)
Impact	High (3)	**Red (9)**		**Red (6)**		**Amber (3)**
	Medium (2)	**Red (6)**		**Amber (4)**		**Green (2)**
	Low (1)	**Amber (3)**		**Green (2)**		**Green (1)**

Two assessments of risk status are needed.

Risk status before existing mitigation – an assessment of the risk happening and its impact if no action is taken. For example what is the risk that we see an increase in rent arrears and do nothing about it?

Risk status after existing and proposed mitigation – an assessment of the risk happening and its impact, taking account of existing and proposed actions aimed at reducing the risk. For example we see an increase in rent arrears and put more resources into chasing debts, what do we now think the risk status is?

If after the existing mitigation we think that the risk status is acceptable then the risk should be tolerated; there is nothing more we can do. But if the risk remains unacceptable (bearing in mind our risk appetite) then we should identify further mitigating actions where we can.

Risks are visually assigned a red, amber or green rating based on the view prevailing at any point in time as to the likely impacts and probability of each risk crystallising.

Risk Framework

Scoring : Likelihood	Risk Status	Performance
1 Very unlikely to happen 2 Could happen 3 Very likely to happen	⇧	**Current risk has increased**
Scoring : Impact 1 Very low – no/limited impact on operations 2 Medium – damaging impact but not threatening the viability of the operations	⇔	**Current risk has stayed the same**
3 Very high – seriously threatens the viability of the operations	⇩	**Current risk has reduced**

Risk Score (Likelihood x Impact)		Management Review	Audit Committee Review / Risk Management Working Group	Board Review
6 and above	High }			
3 to 4	Medium }	Reviewed monthly	4 x per year	6 monthly
Below 2	Low }			

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