



MOLENDINAR HOUSING ASSOCIATION

RISK MANAGEMENT STRATEGY

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RISK MANAGEMENT POLICY

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1. Introduction

Effective and efficient businesses know how to identify, assess and manage risk. Management of risk is a cornerstone of good governance.

The Association's aim is to identify, manage and minimise, rather than eliminate, risks which may prevent the Association achieving its objectives. The identification and management of risk is a continuous process as changes are made to how the Association operates and to the external environment in which it operates.

The Risk Management Policy articulates how the Association manages risk and takes account of the principles outlined by the Scottish Housing Regulator in its Guidance and Standards.

2. Policy Scope

This Policy sets out:

- a definition of risk management
- the process Molendinar will adopt in its management of risk
- the respective roles of the Committee; the Finance, Audit and Risk Committee; the Director and staff
- the context of risk management as part of Molendinar's internal controls
- a glossary of key terms in risk management

3. Definitions

Risk itself can be defined as: -

The threat or possibility that an action or event will adversely affect an organisation's ability to meet its objectives

The Scottish Housing Regulator defines risk management as: -

'The process of defining and analysing risks, and then deciding on the appropriate course of action in order to minimise and mitigate these risks.'

4. Context

This Policy is informed by the Scottish Housing Regulator's (SHR) Guidance and Standards; specifically, by Business Planning – Recommended Practice December 2015 and by Regulatory Standard 4.

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

Within its Regulatory Standards of Governance and Financial Management of 2012, the SHR states: –

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.

This Policy recognises that there are a number of generic risks which most, if not all, Registered Social Landlords require to manage, including the rolling out of Universal Credit; welfare reform and the potential impact on rent arrears and voids; pension liability; SHQS (Scottish Housing Quality Standard) and EESH (Energy Efficiency Standard for Social Housing) compliance; affordability; covenant compliance; cash flow.

A series of risks are identified in the Scottish Housing Regulator's Regulatory Advice Note of November 2013 – 'Financial Risks and Viability' and there is considerable interface between this Policy and Molendinar's Policy on Treasury Management.

A number of risks are more specific to Molendinar and link to its stock profile, including its tenement properties, its sheltered housing development (which the Care Inspectorate has confirmed in writing does not require to be registered) and its operating environment, including its organisational structure which is currently under review.

The Association is committed to embedding risk management throughout the organisation and its systems and controls are designed to ensure that exposure to significant risk is properly managed.

5. Policy Objectives

The objectives of this Policy are:

- To manage risk in accordance with best practice
- To embrace SHR Regulatory Standards and Guidance and legal compliance as minimum standards in the management of risk
- To anticipate and respond to changing social, economic, legislative, political, technological and environmental requirements
- To minimise the cost of risk and to prevent injury or damage, including reputational damage
- To integrate risk management into the culture of the Association.
- To contribute to continuing high standards of customer service by better equipping the Association with a fuller appreciation and understanding of risk and how to manage it

- To provide a framework which enables the Association to identify, assess and manage risk and to record and review this
- To enable the Association, through this framework, to review, assess, record and manage changes in existing risks and to understand better, new and emerging risks.

Outcomes from this Policy approach will include the following:

- Better informed decision-making
- An even more proactive approach, anticipating and influencing events before they happen
- Improved contingency planning
- Embedding risk management in the Association as a whole, including, Committee decision-making

6. Equality and Diversity

When identifying risk, all activities undertaken, or being considered, by Molendinar require to be assessed for compliance with the Association's Equality and Diversity Policy and the Association will strive to ensure there is no risk of discrimination or unfair treatment as a result of its actions.

7. Training

Committee member induction training will include training on risk management and training on risk management will be provided to Committee members and staff.

8. Approach to Risk Management

Integral to Molendinar's approach to risk management are the following key principles:

- The Management Committee has responsibility for overseeing risk management within Molendinar overall
- An open and receptive approach to solving risk problems is adopted by the Management Committee
- The Director and staff team support, advise on and implement policies approved by the Management Committee
- Risk management is part of Molendinar's system of internal controls
- All staff are responsible for encouraging effective risk management practice
- Molendinar recognises and discloses the financial and non-financial implications of risks as part of its overall risk assessment

9. Process of Risk Management

The Association's approach to risk management is based on the following stages – Identify, Assess, Prioritise, Manage, and Report and Review.



Stage 1- Identify Risks

Staff, under the leadership of the Director, are supported to identify key risks which could hamper the achievement of Business Objectives and hinder or prevent Key Performance targets from being achieved. Alongside this ways of preventing and/or managing the perceived risks are identified. This can be included as part of team discussions. Risks are identified and assessed from a strategic and an operational perspective and the risk management process is also followed where the Association is considering a new activity or a fundamentally new way of working.

Stage 2 – Assessment

Risks identified in Stage 1 are prioritised using the approach shown in Appendix 1, recognising that this may change and develop over time and be refined in the light of experience.

The assessment focuses on the difference between the Inherent Risk – ie the initial risk identified without controls and the Residual Risk – ie the remaining risk, taking account of what controls/measures if any can be put in place to manage or reduce this risk. Not every risk is able to be managed, especially those which are outwith the Association's direct control.

Risks are assessed looking at both the Likelihood and the Impact (or consequences) Each Risk is assigned a Risk Owner who has primary responsibility for managing and monitoring the identified risk. In most cases, the Risk Owner will currently be the Director or the Finance Officer.

The identified risks are written up onto a Risk Register, using the approach shown in Appendix 1 which will be reviewed quarterly by the Director and staff. The outcome of the reviews is submitted to the Finance, Audit and Risk Committee for oversight and from this the top-level risks – (is those with a score of 15 or above) are also reported to the full Committee.

Stage 3 – Prioritisation

Using the method, as described above, risks can be prioritised. From the risk score the Association has clarity on the potential impact of the key risks, their management and the implications for the Association in terms of risk exposure and direction of resources.

Stage 4- Manage

How the Association responds to and manages risk depends on the nature of the risk, the outcome of the assessment and to some extent on the Association and the Committee's appetite for risk, which may change over time. Risk appetite is the term used to refer to the amount of risk which Molendinar, through its Committee is prepared to accept, tolerate or be exposed to at any point in time. Being risk averse may result in opportunities being missed and being more embracing of risk may, unless it is controlled properly, mean the Association is exposed to unnecessary risk.

There are five approaches to managing and addressing risk – Tolerate, Treat, Transfer, Terminate or Take the Opportunity. This is expanded in the Table below.

Response	Description
Tolerate (accept)	The controls in place reduce the likelihood and impact levels to an acceptable level (within appetite) the introduction of additional controls would be cost-benefit prohibitive. It is therefore decided to <i>tolerate</i> the risk.
Treat	Risks need additional treatments (controls) to reduce the likelihood and impact levels. This response is most likely where the risk has been identified as a high risk due to the likelihood and impact levels and Molendinar has the ability to introduce further controls that will reduce the likelihood and/or the impact of a risk.
Transfer	Risks are transferred to an insurer, e.g., buildings insurance. This is not, however, possible for all risks. Some service delivery risks can also be transferred to a partner or contractor by way of a formal contract or written agreement. Some aspects of risk cannot be transferred, for example those that have a reputational impact
Terminate	A risk maybe outside Molendinar's risk appetite and the Association does not have the ability to introduce additional controls to reduce likelihood and/or impact of the risk therefore there is no other option than to terminate the activity generating the risk.
Take the Opportunity	Risk and opportunity are two sides of the same

	coin. Having assessed the risks fully, considered what controls can reasonably be put in place, the decision is to proceed
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The majority of risks will be addressed by Treat. This means that the Association will, as far as is practical, take action/control to alleviate the risk.

Some risks will only be containable by Terminating the activity associated with the risk.

Stage 5 - Report and Review

The management of risk is reported and reviewed to:

- monitor whether the risk profile is changing
- gain assurance that risk management is effective
- identify when further action is necessary

This approach will be informed and influenced by staff throughout Molendinar, ensuring risk management is informed by operational activity, knowledge and experience. This will involve staff in the regular review of the Association's operational risks.

Through Risk Management:

- Risks are identified in relation to the achievement of objectives (as set out in the Association's Business Plan)
- Risks are assessed with reference to their likelihood and impact
- Risks are responded to, taking account of the Association's assessment and tolerance
- Risks are reviewed by the Director, in conjunction with other staff and reported to the Finance, Audit and Risk Committee on a quarterly basis; risks with a score of 15 or above are also reported to the full Committee for oversight. The Audit Committee must be satisfied that the Risk Register (in which Risks are listed, following identification, assessed and responded to) is up to date and that the responses to the identified risks are appropriate.

10. Roles and Responsibilities

Committee

The Committee has a vital role to play in the management of risk as it sets the tone and heavily influences the culture of risk management within Molendinar.

The Association's Code of Conduct for Committee members requires members to ensure that effective policies and procedures are implemented so that all decisions are based on an adequate assessment of risk, deliver value for money, and ensure the financial well-being of the organisation.

In overseeing the implementation of the risk management Policy, the Committee:

- determines what level of risk is acceptable and what is not
- determines the extent to which the Association is risk averse or risk- taking and on specific areas and activities
- sets the standards expected and required of staff in terms of conduct and probity
- approves major decisions affecting the Association's risk exposure and profile
- monitors the management of significant risks
- satisfies itself, in a range of ways, including the use of internal audit reports; Key Performance Indicators; and complaints that less significant risks are being appropriately managed
- annually reviews the implementation of this Policy

Audit, Finance and Risk Sub Committee

This sub-committee has, inter-alia, responsibility for:

- Developing and maintaining the association's risk register and overseeing the management of risk and has key responsibilities in relation to other systems of internal control
- Overseeing the preparation and implementation of the annual external audit plan
- Planning and overseeing the annual programme of internal audit and monitoring the implementation of the consequent recommendations

Director

The Director, in conjunction with the staff team, has responsibility for ensuring:

- The systematic review of risk management throughout the Association's activities in line with this Policy
- The updating of the Risk Register on a quarterly basis and presenting this to the Association's Finance, Audit and Risk Committee
- The preparation of any contingency plans identified as part of the risk management policy
- Driving forward the embedding of the risk management process across the Association as part of a culture of continuous development and improvement

- Knowledge and information on the wider operating environment is kept up to date so that the Director can be alert to and both take and recommend appropriate action in relation to the identification, assessment and management of risk
- Appropriate training on risk management is provided to Committee members and to all staff, with such training being refreshed as required

All Staff

All staff have a responsibility for:

- responding positively to training on risk management
- being aware of the Association's approach to risk management and the top risks facing the Association
- ensuring that risk is managed effectively in their area and for identifying risks in performing their daily duties and taking appropriate action to limit the likelihood and impact of these risks.

11. Risk Management and Internal Controls

Risk Management is a fundamental aspect of Molendinar's system of Internal controls. Taken alongside a range of other controls, as shown below risk management is part of the toolkit of an efficient and effective business enabling Molendinar to respond to and manage a range of operational, financial and commercial risks.

Other elements of internal control include:

- Policies and Procedures including for example Health and Safety, Treasury Management, Complaints Handling
- Finance, Audit and Risk, Committee which oversees the internal and external audit functions and receives regular reports including quarterly management accounts, key performance indicators
- Service Delivery Sub Committee which scrutinises Molendinar's operational customer service performance
- Business Planning and Budgeting
- Internal audit programme is a key aspect of internal controls, reporting direct to the Committee on selected areas
- External audit reports direct to the Committee on its findings on the effectiveness of Molendinar's financial controls
- Other Regulatory Bodies – for instance the Health and Safety Executive

12. Policy Review

Whilst this Policy is subject to review, three yearly, unless changes in legislation; guidance or other factors necessitate an earlier timescale, the on-going effectiveness of the Policy will be reported on, by the Director, to the Finance Audit and Risk Committee which may make recommendations for change to the Committee.

It is envisaged that the Risk Policy implementation will be an iterative process, as confidence and maturity in its use develops.

Appendix 1 Risk Scoring

To evaluate risks all risks are scored in terms of their likelihood and potential impact using the following scale; the score for the likelihood and the impact are then multiplied together to give an overall risk assessment.

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

Likelihood descriptors

Likelihood	Descriptor
Almost certain; Likelihood greater than 75%	Very likely The event is expected to occur in most circumstances There could be a history of regular occurrences – i.e. on an annual basis and If new event, likelihood of occurrence regarded as almost inevitable
Likely: Likelihood greater than 50%	There is a strong possibility the event or risk will occur There may be a history of frequent occurrences Everyone with knowledge of issues in this area knows this could happen No or little effective measures to reduce likelihood can be and/or have been taken and Will probably occur in most circumstances
Possible: Likelihood between 10% and 50%	The event might occur at some time There could be a history of casual occurrence Most of the team know the risk might occur and Measures that reduce likelihood have been taken but are not fully effective
Unlikely: Likelihood of between 1% and 20%	Not expected, there is a slight possibility it could occur at some time Some of the team consider that a risk might occur Conditions exist for this loss to occur; and Probably requires more than two coincidental events
Rare: Likelihood less than 1%	Highly unlikely but may occur in exceptional circumstances It could happen, but probably never will No experience of a similar failure Probably requires three or more coincidental events If it has happened, sufficient controls now in place

Examples – Illustrative only

Risk - Inherent Risk	Causes/factors	Initial Rating Ixi	Controls	Residual Risk	Business Plan Links	Risk Owner
Voids increase in tenement stock	<ul style="list-style-type: none"> ●Decreasing desirability of this stock as evidenced by longer relet times; ●Reduction in customer satisfaction ●Other RSLs developing new homes in adjacent area 	Likely= 4 Impact major so 4 = 4x4 =16	<ul style="list-style-type: none"> ●Asset Management Strategy commissioned early 2018 and outcomes will provide clearer information on requirements ●Relet times are continuously monitored ●Customer satisfaction remains high – ●Housing list shows healthy demand for homes 	Possible= 3 Impact 4 = so 3x4 =12	To include narrative on which aspects of BP this links with	Director
Arrears levels increase	<ul style="list-style-type: none"> ●Roll out of Universal Credit ●Welfare Reform ●Changes in profile of tenants in work 	Likely =4 Impact major so 4= 4x4=16	<ul style="list-style-type: none"> ●Regular early monitoring of arrears levels and escalation actions ●Staff Training on Universal Credit ●Information on web site and tenant newsletters ●Tenants encouraged to have benefits checks ●Rent increases take account of affordability 	Possible = 3 Impact = 4 So 3x4 = 12		Director

Appendix 2

Glossary of Key Terms

Term	Definition
Assurance	An evaluated opinion based on evidence gained from review on the organisation's governance, risk management and control framework
Exposure	The consequences that arise from the realisation of a risk.
Impact	The probable effect if the risk occurs
Inherent Risk	The exposure arising from a specific risk before any action has been taken to manage/control it
Likelihood	The probability or chance of a risk occurring
Opportunity	An event that can have a positive impact
Residual Risk	The exposure arising from a specific risk after action has been taken to manage it and assuming the controls put in place are effective
Risk	The threat or possibility that an action or event will adversely affect an organisation's ability to meet its objectives
Risk Management	The process of defining and analysing risks, and then deciding on the appropriate course of action to minimise and mitigate these risks
Risk Register	The documented and prioritised overall assessment of the range of specific risks faced by the Association
Risk Appetite	The level of risk Molendinar is prepared to accept or tolerate before considering action necessary.
Risk Owner	The person responsible for ensuring the risk is properly managed and monitored