

Risk Management Strategy 2011-12

1. Introduction

This Risk Management Strategy sets out Northwards Housing's commitment to risk management and how it identifies, prioritises and manages strategic risks to achieve its key objectives and other areas of risk to the business.

Northwards recognises the importance of risk management and furthermore we recognise that the effective application of risk management is essential so that 'risks are addressed properly' to avoid the mistakes that have for example been evident with the recent global financial crisis.

There are a number of reports outlining best practice. ISO 31000 "Risk Management – Principles and guidelines" (2009), British Standard 31100 "Risk Management Code of Practice" (2008) and the Turnbull Report published by the Financial Reporting Council (2005) and other established standards (appendix A). We will use elements of these as appropriate to the business context in which Northwards operate as they contribute to the effective management of risk and Northwards' aim to develop a stronger risk management culture.

Northwards Risk Management Strategy aims to ensure that risk management is:

- Proportionate to the level of risk within the organisation;
- Aligned with other business activities;
- Comprehensive, systematic and structured;
- Embedded within business processes;
- Dynamic, responsive to emerging change.

2. Purpose and Benefit

Risks can be threats (hazard risks), or business potential (opportunity risks) or events which create uncertainty about outcomes (control risks).

Our priority is to ensure that our business objectives are not jeopardised by strategic and operational risks that have not been identified and managed. We need to be able to respond to changing political, social, economic, technological, legislative and environmental requirements and aim to manage risk in accordance with best practice.

We also need to manage the impact of risk if we are to meet the requirements set out in our Management Agreement with Manchester City Council and our Business/Delivery Plan goals, including new business opportunities.

To do this our strategy is intended to manage risk in a proactive and integrated way by:

- reducing the likelihood of events that would have a negative impact on the business;
- increasing the likelihood of events that would have a positive impact on the business;
- improving accountability, decision making, transparency and visibility;
- executing change more effectively and efficiently;
- providing a better understanding of, and compliance with, relevant governance, legal and regulatory requirements, and corporate social responsibility and ethical requirements;
- protecting our revenue and enhancing value for money;
- protecting our reputation and maximising stakeholder confidence;
- controlling expenditure via effective budgetary management.

The potential benefits will include:

- Efficient operations because events that can cause disruption will be identified in advance and actions taken to reduce the likelihood of them occurring, reducing the damage including costs;
- Processes will be more effective as consideration is given to the risks involved and the alternatives that may be available;
- Risks associated with different strategic options will be fully analysed and better strategic decisions made.
- A greater level of assurance will be offered to stakeholders.

The potential rewards will include:

- Fewer disruptive events
- Projects more likely to be delivered on time, within budget and to specification
- New business streams/ventures may be more successful
- Improvement in the robustness of decision making

3. Northwards Approach to Risk Management

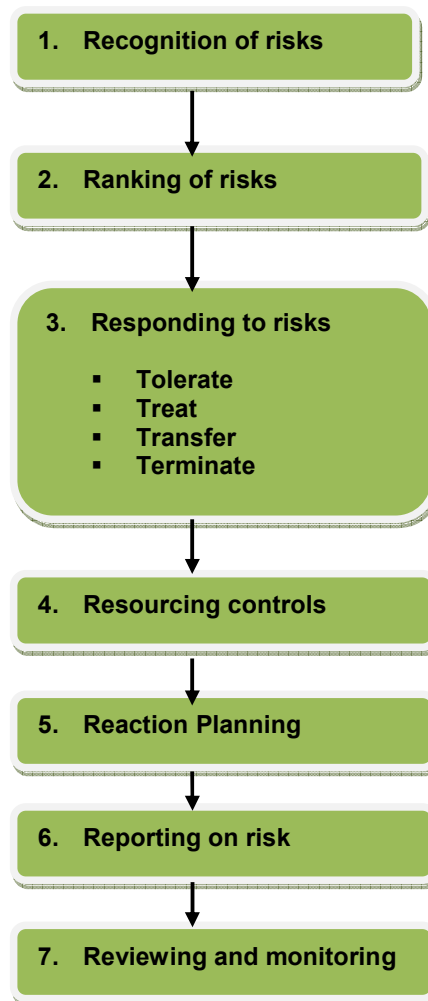
Risk management does not take place in isolation. Our priority is to work to embed a culture of risk management in the organisation so that risk becomes integrated into mainstream operations and strategic business planning. Northwards has a Risk Management Framework to support this approach.

Northwards perceives risk to be **the uncertainty of an event occurring that could have an impact on achievement of its objectives**. This could impact on corporate objectives, as well as project or personal objectives, where they relate to change or development. Risk is measured in terms of consequence (impact) and likelihood. There are generally three categories of risk:

- Hazard (or pure) risks e.g. health and safety
- Control (or uncertainty) risks e.g. projects
- Opportunity (or speculative) risks e.g. expansion, investment, new business streams

In regard to health and safety risks Northwards will take action to eliminate them and if this is not possible we will seek to manage safety risks to the lowest level that is cost effective and in compliance with the law.

The diagram below illustrates how the risk management process works using the 7 R's and the 4 T's. This approach and development of common risk language across the organisation is also supported by our use of the Covalent Performance Management System to help us manage risk.



4. Risk Management Framework

Northwards' framework takes account of the context of our operation, both internal and external factors, as well as our risk management activities.

A more integrated framework for risk management is designed to create a greater level of ownership across the organisation for risk management. This move towards a more mature and systematic management of risk also helps to reduce informal risk management practices and the potential for a blame culture.

Roles and responsibilities for the management of risk will be made explicit within managers' job descriptions. Training will be provided to all risk managers who will be supported with protocols to support them in the production of risk responses / improvement plans should they be required as well as risk performance reporting. This will be implemented efficiently with the minimum amount of bureaucracy. Using Covalent as a tool to monitor and report on risk activity and performance is the most efficient way of monitoring and reporting risk. Appendix B details the individual responsibilities of both Non Executive Directors and employees when managing risk. To ensure risk management is given an appropriate profile and level of priority a nominated Board Member will champion risk awareness on the Board.

The risk register contains only key high level strategic risks (around 10). The aim at this level is to focus on the most critical areas of risk that will be reviewed by the Board on a quarterly basis and include a summary report of actions taken to manage and mitigate risk as well as changes to the register. Below these key risks, however, sit a range of operational risks that feed into these higher level risks and which allow for a comprehensive real time snapshot of risk management across the organisation at any one time.

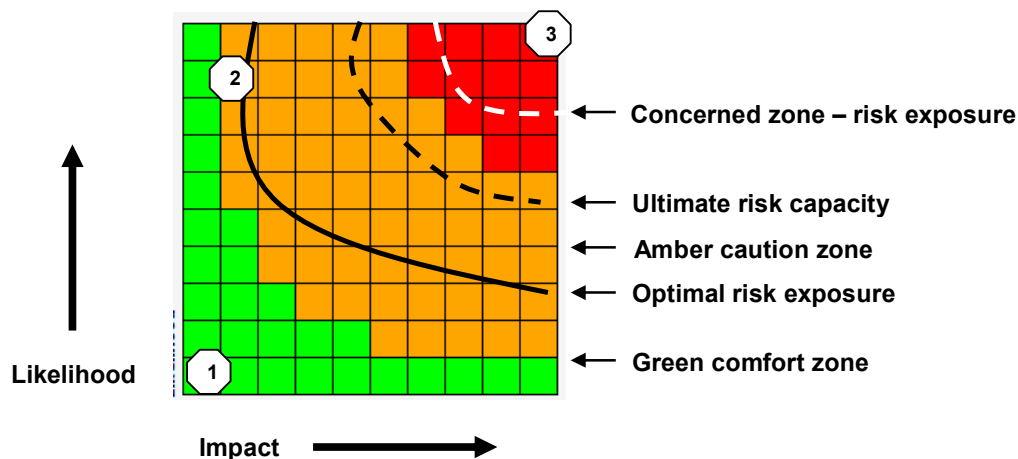
The register is viewed as an action plan that records the status of the organisation's risk management and more importantly the critical controls that are in place, and any additional actions introduced to mitigate the risk.

A risk culture at Northwards formed from individual and group values, attitudes and behaviour is something we continue to strive to develop and embed across the organisation. Communication will play a vital role in achieving this aim along with risk awareness training and a culture that is based on accountability not blame. A successful culture will comprise of LILAC:

- Leadership must be strong relating to strategy, projects and operations;
- Involvement of all stakeholders in stages of the risk management process;
- Learning and training in risk management procedures;
- Accountability that is appropriate and encourages reporting, not blame;
- Communication and openness on issues so that lessons can be learnt.

This approach will encourage employees, and potentially those from outside the organisation (i.e. tenants, residents, partners, councillors), to report concerns without the fear.

A risk matrix (or heat map) is the chosen method of rating risks at Northwards as this demonstrates the relationship between likelihood of the risk materialising and the impact of the event.



The matrix indicates Northwards level of **risk appetite, exposure and capacity**. All risks are scored in terms of likelihood and potential impact using the 10 x 10 risk evaluation matrix. The scores for likelihood and impact are multiplied together to provide an overall risk score.

As an example the above matrix indicates the following:

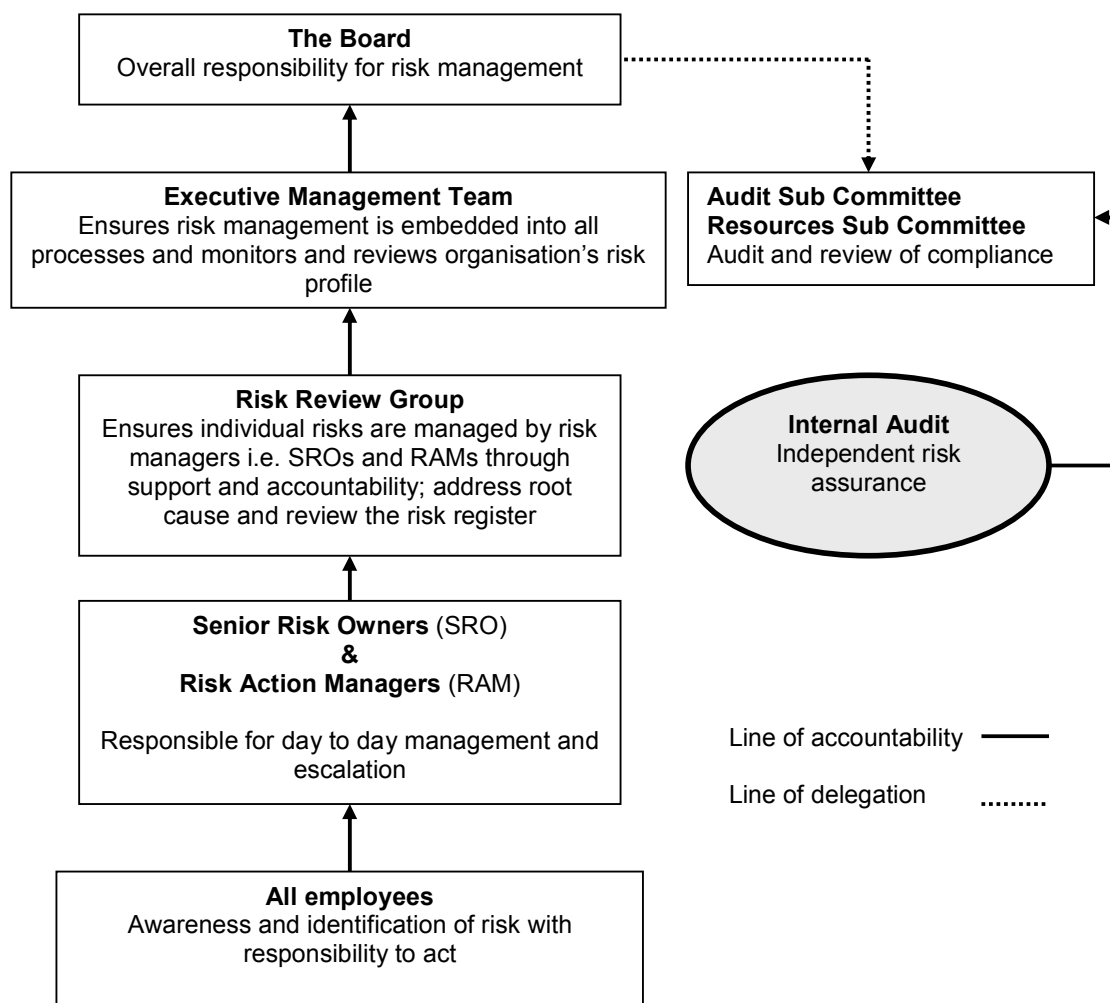
- Point 1 = low impact and low likelihood (well inside comfort zone)
- Point 2 = medium-low impact but high likelihood (within risk capacity)
- Point 3 = impact critical and likelihood critical (concerned zone)

There 4 main control options we use to manage risk are the Four T's:

Terminate (avoid / eliminate)	Some risks will only be treatable, or containable to acceptable levels by terminating the activity. A level of risk that should be avoided and if possible should be eliminated.
Treat (control / reduce)	This refers to the level of cost-effective (corrective) controls put in place to manage the risk to an acceptable level. The majority of risks will be managed in this way.
Transfer (Insurance/contract)	Where the decision is taken to transfer the risk to a third party usually by means of insurance or contractual transfer such as paying a third party to take the risk.
Tolerate (accept / retain)	The risk here is considered acceptable to Northwards or the ability to do anything about the risk is limited, or the cost of taking action may be disproportionate to the potential benefit gained. Should be monitored and re-evaluated in the future

Where appropriate target risks can be agreed and scheduled reporting on progress towards the agreed target (the acceptable level of risk).

A robust structure of accountability and responsibility is required as part of a control environment (i.e. governance, risk management and internal control). Managers will be responsible for ensuring that proper controls are in place. An independent audit function also provides assurance to the Board and Manchester City Council.

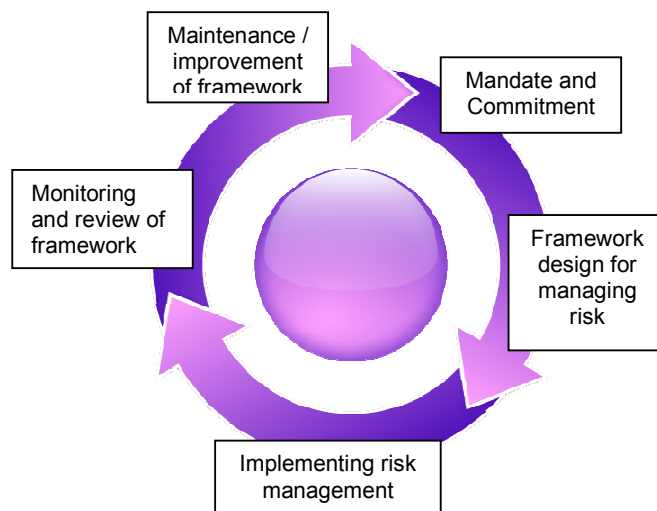


The Board carries the ultimate responsibility for the Risk Management Strategy and will seek assurance via regular reporting, real time checks of the Covalent system, and through the independent audit function to ensure that appropriate arrangements are in place to manage risk. At Northwards all employees are encouraged to be 'risk aware' and to be proactive in acting and reporting risk to their line manager. A Senior Risk Owner (a member of EMT or SMT) will be responsible ultimately for reporting on actions taken to

manage and control specific risks. They will have the authority and accountability to make decisions to treat or not to treat a risk. They are the best person, with appropriate support and training, to understand and assess the risk and therefore best able to assess when the risk has been sufficiently managed. The risk owner will usually be the person who would suffer the most if the risk impacts and is therefore motivated to make sure the Risk Action Manager delivers on any actions to mitigate risk.

At operational level this is monitored via the **Risk Review Group** chaired by the Director of Business Services and also within normal line management structures. The Risk Review Group also gives added impetus and focus on managing risk and supporting and embedding a risk culture. The terms of reference for the group (appendix C) ensure that they meet every three months to check that the risk register continues to be fit for purpose; review any new risks that have been added since the last review and make recommendations for any changes to identified risk and current mitigating actions. The Risk Action Managers also manage the same risks. Having a Senior Risk Owner and a separate risk action manager for each risk provides checks and balances to ensure follow-through of risk actions. The Risk Action Manager is the best person to take action to manage the risk.

This Strategy will be reviewed by the Board's Audit Sub Committee on an annual basis to ensure that it remains fit for purpose. In line with best practice (BS 31100), Northwards will ensure arrangements are in place for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the organisation.



References: Risk management standards

1. ISO 31000 “Risk Management – Principles and guidelines” (2009)
http://www.theirm.org/documents/SARM_FINAL.pdf
2. British Standard 31100 “Risk Management Code of Practice” (2008)
<http://shop.bsigroup.com/ProductDetail/?pid=000000000030191339>
3. The Turnbull Report published by the Financial Reporting Council (2005)
<http://www.icas.org.uk/site/cms/contentviewarticle.asp?article=3556>
<http://www.frc.org.uk/images/uploaded/documents/Revised%20Turnbull%20Guidance%20October%202005.pdf>
4. Enterprise Risk Management
http://en.wikipedia.org/wiki/Enterprise_risk_management
5. Institute of Risk Management
http://www.theirm.org/publications/documents/ARMS_2002_IRM.pdf
<http://www.theirm.org/abouttheirm/ABaboutus.htm>
6. Orange Book Standard produced by HM Treasury UK (2004)
<http://www.who.int/management/general/risk/managementofrisk.pdf>

Responsibilities for managing risk

Board Members

The Companies Act 2006 has consolidated common law and the following general duties apply:

- Act in accordance with allocated responsibilities;
- Act in accordance with the constitution of the company;
- Promote the success of the company;
- Exercise independent judgement;
- Exercise reasonable care, skill and diligence;
- Avoid/declare conflicts of interest;
- Not accept benefits from third parties.

Risk management is particularly important when promoting the success of Northwards and exercising reasonable care, skill and diligence. Board Members have a clear role to play in audit, assurance and compliance activities. The Board is responsible for ensuring there is an adequate and effective risk management framework in place and the Audit Sub Committee is responsible for ensuring the overall process for managing risk is robust.

Board Members do not become involved in the management of individual risks because of the potential conflict with their non-executive audit responsibilities and Executive directors are generally in a better position to understand and deal with risks that the organisation faces.

The key elements for Board Members to consider are:

- Strategy – constructively challenge and help develop proposals on strategy;
- Performance – scrutinise the performance of management;
- Risk – challenge the integrity of financial information;
- Controls – seek assurance that financial controls and systems or risk management are robust and defensible;
- People – determine the appropriate level of remuneration for the executive directors and have a prime role in succession planning;
- Confidence – seek to establish and maintain confidence in the conduct of the company;
- Independence – be independent in judgement and promote openness and trust;
- Knowledge – be well informed about Northwards and the external environment in which it operates, with a strong command of relevant issues.

The role of Director of Business Services

- Champion for risk management processes and maintains an overview of how resources are applied to control risk;
- Works with other managers to establish effective risk management, monitoring progress, and assisting other managers in reporting relevant risk information up, down and across the organisation
- Work closely with internal auditors
- Develop and facilitate a risk management culture within the organisation
- Co-ordinate risk management activities
- Compile risk information and prepare reports for the board
- Chair the Risk Review Group

The Role of the Senior Risk Owners (members of EMT and/or SMT)

- Understand and have the relevant knowledge to assess when the risk has been sufficiently managed
- Build a risk aware culture within their team/location
- Agree risk management targets as and when appropriate
- Evaluate reports from employees on risk management issues and ensure risk improvement recommendations
- Identify and report changed circumstances/risks
- A member of the risk review group

The Role of the Risk Action Managers

- The best person equipped with the skill and resources to take action to manage the risk

The Role of Individual Employees

- Understand, accept and implement risk management processes
- Report inefficient, unnecessary or unworkable controls
- Report loss events and near-miss incidents
- Ensure visitors and contractors comply with procedures

Terms of reference of the Risk Management Group

1. To foster a culture that raises the profile of risk management and demonstrates the benefits of a risk-based approach;
2. To review the level of exposure to risk of Northwards business activities taking account of the risk appetite of the Board and the risk capacity of the organisation;
3. To make recommendations to the Audit Sub Committee and / or Board on all significant matters related to risk strategy at Northwards;
4. To monitor the performance of the risk management systems
5. To review reports and actions of Senior Risk Owners and where appropriate Risk Action Managers;
6. To keep under review the effectiveness of the risk management infrastructure including:
 - a. review and updating of the high level risk register and consideration of new or emerging key operational risks;
 - b. assessment of risk management procedures taking account of any changes in the operating environment;
 - c. consideration of risk audit reports on the key business areas so as to assess the level of business risk exposure;
 - d. consideration of any major findings or any risk management reviews and the response of management;
 - e. assessment of the risk of new ventures and other strategic, project and operational initiatives.