

THE NATIONAL AFFORDABLE HOMES AGENCY

Risk management strategy

February 2008



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Foreword

The Housing Corporation supports communities across England by investing in the supply and regulating the quality of affordable homes and associated services for householders whose circumstances make it difficult for them to meet their housing needs in the open market. These include homeless people, low income families, key workers and those in need of supported accommodation.

The Corporation currently faces significant challenges and opportunities in the context of:

- the announcements in the 2007 Comprehensive Spending Review of the Government's plan to increase the supply of affordable housing from just over 40,000 homes in 2005-06 to 70,000 homes by 2010-11;
- supporting both stock transfer and traditional housing associations in meeting both the physical elements of achieving the Decent Home Standard and helping to create strong and vibrant communities by tackling homelessness, worklessness and financial inclusion; and
- the transition to the Homes and Communities Agency and the Office of Tenants and Social Landlords, whereby our investment functions will merge with English Partnerships and some of the housing and regeneration delivery function from Communities and Local Government to form the Homes and Communities Agency, and our regulation function will transform to create the Office of Tenants and Social Landlords.

Meeting these challenges requires innovative thinking and new approaches, whilst we continue to meet the rigorous standards of accountability and corporate governance required of us.

We recognise that there are risks and opportunities associated with new and untested ventures. We want to embrace new challenges, recognising that it will rarely be possible to remove risks completely. Our aim, therefore, must be to manage risks better and to ensure that effective risk management is integral to the way we think and what we do.



Steve Douglas
Chief Executive

January 2008

This strategy articulates how we manage risk. It updates and replaces the Risk Management Strategy published in February 2006, reflecting the evolution of our approach and taking into account the principles and concepts in the revised Orange Book published by HM Treasury in October 2004.

Whilst this strategy document sets out defined processes for managing risk, successful risk management can only be accomplished on a day-to-day basis by staff at all levels through their working practices; it does not simply lie inert in corporate policies and management structures.

1 Institutional context

1.1 In April 2006 the Government announced the Housing and Regeneration Review of national structures around the delivery of the Sustainable Communities plan. Eight months later, in January 2007, the outcome recommended the formation of a single agency – the Homes and Communities Agency (HCA) – made up of Housing Corporation’s investment function, English Partnerships and operational housing and regeneration elements of Communities and Local Government, by April 2009.

1.2 In December 2006, the Government appointed Professor Martin Cave, Director, Centre for Management under Regulation (Warwick University), to head up an independent review of the regulation of social housing.

1.3 Professor Cave’s report, Every Tenant Counts, was published in June 2007. It recommended that the regulation of social housing be the responsibility of a single – stand alone – regulatory body and not co-located with the investment function.

1.4 In the same month, the Government also launched the consultation paper Delivering Housing and Regeneration: Communities England and the Future of Social Housing Regulation. Following the consultation exercise, the decision was taken in favour of the Cave recommendations for a single independent regulatory body, a new agency to be known as the Office for Tenants and Social Landlords.

1.5 Transferring the Housing Corporation’s functions and staff to the two new agencies represents a huge change and is going to be a challenging undertaking, with inevitable upheaval for the Corporation and its staff. The additional challenge will be in continuing to deliver a high quality service during the transition and in maximising the influence the Corporation has over the shape and functions of the emerging agencies.

1.6 Essential to achieving continued high quality performance, will be the effective management of risks together with a robust risk management process that cross cuts all staff within the Housing Corporation, and extends outwards to our stakeholders.

1.7 This risk management strategy has been written in the context of this period of change that the Housing Corporation will operate in until the two new agencies are formed. It acknowledges that the period of change opens a whole new range of opportunities for staff and for the investment and regulatory functions alike. Through our influencing role we can help shape the future of investment and regulation and the housing sector as a whole. To ensure the opportunities open to us are utilised to the best effect we will need to take risks, and to exert control as much as possible. This risk management strategy sets out the principles and processes for managing risks to the best effect within the Housing Corporation.

2 Overview

2.1 Risk is defined as the uncertainty of outcome, whether positive opportunity or negative threat, of action and events. Risk has to be assessed and managed in respect of the combination of likelihood of something happening, and the impact that arises if it does happen.

Risk appetite

2.2 The resources available for managing risk are finite and so our aim is to achieve an optimum response to risk, prioritised in accordance with our evaluation of the probability and potential impact of a risk occurring. The risk appetite determines when a response to risk is sufficient and when it is not, ensuring that resources are always used to the best effect.

2.3 The term 'risk appetite' refers to the level of risk we are prepared to accept or tolerate after internal control is exercised (i.e. the residual risk). If the residual assessment is higher than the risk appetite, further action should be taken to reduce the likelihood and/or impact of the risk occurring. If this not possible, contingency plans should be put in place.

How do we manage risk?

2.4 Risk management is the process by which we:

- identify risks in relation to the achievement of our objectives;
- assess their relative likelihood and impact;

- respond to the risks identified, taking into account our assessment and risk tolerance;
- review and report on risks – to ensure the risk register is up to date, to gain assurance that responses are effective, and identify when further action is necessary.

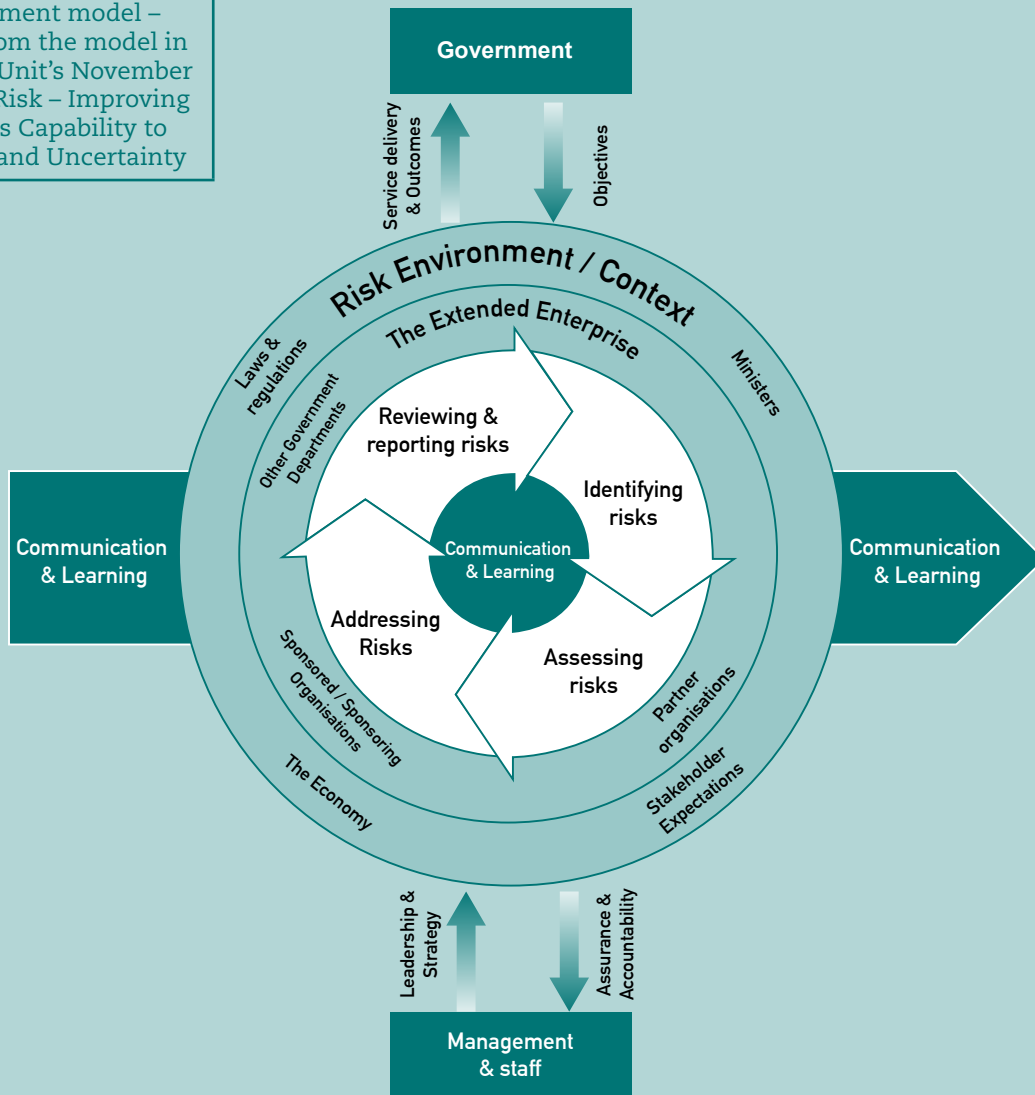
Risk management goals

2.5 The goals of risk management are to:

- take a proactive approach, anticipating and influencing events before they happen;
- facilitate better informed decision making;
- improve contingency planning;
- avoid unnecessary problems;
- set demanding performance targets; and
- set appropriate corporate ethics.

2.6 The management of risk is not a linear process; rather it is the balancing of a number of interwoven elements which interact with each other. It is essential that the risk management process is intertwined with other operating activities and permeates the organisation's management and staff. This is illustrated by the Cabinet Office/HM Treasury risk management model shown on the next page.

Risk management model – developed from the model in the Strategy Unit’s November 2002 report: Risk – Improving Government’s Capability to Handle Risk and Uncertainty



Notes on the model

- The management of risk is the balancing of a number of interwoven elements which interact with each other.
- The model dissects the core risk management process into elements for illustrative purposes, but in reality they blend together.
- The model illustrates how the core risk management process is not isolated, but takes place in a context.

3 Identifying risks

3.1 Identifying risks is the first step in building the Corporation's risk register. The process for identifying and defining risks establishes common understanding of risk and therefore better capability to respond appropriately. Risks are identified by Executive Management Team, individual operating teams, project teams and the various Board sub-committees.

3.2 EMT undertakes a review of corporate risks every quarter, which involves identifying new risks, changes in existing risks and the identification of risks that are no longer relevant to the organisation.

3.3 A risk self-assessment exercise is organised twice a year as part of the six-month operational planning and performance review process. Each part of the business reviews its operational activities and contributes to the diagnosis of the risks it faces. Any exposure to risk that is outside the risk appetite is considered for escalation to the corporate risk register by the Corporate Development Team, the Investment Committee and the Registration and Regulation Committee.

3.4 Throughout the life of all projects in the Corporation, each project team should regularly identify risks to its project objectives and record them in a risk log. Corporate Development will review project risk logs every six months, as part of the performance management cycle, and will recommend, to ARC, risks for escalation to the corporate risk register.

3.5 Staff have a corporate responsibility to identify and monitor risks within their area of responsibility and to bring risks to the attention of their managers. It is the managers' responsibility to put controls in place and to gain assurance that risk in their area of control are being monitored adequately. Departmental heads are responsible for escalating risks that could impact on the achievement of business objectives to EMT.

3.6 Regular discussion about risks should take place between heads and managers, and between managers and staff to ensure that risk management becomes a routine activity in the same way as performance management.

3.7 The corporate risk register will be a live document with opportunities to update it on an ongoing basis, together with formal reviews – as set out in section 9 below.

3.8 When identifying and defining risks, the following guidelines should be followed:

- risks should be related to the objectives/themes as set out in the Corporate Plan;
- a statement of risk should encompass the cause of the impact, and the impact to the objectives which might arise;
- risks should be identified at a level where a specific impact can be identified and a specific action or actions to address the risk can be identified; and

- care should be taken to avoid stating impacts which may arise as being the risks themselves, and to avoid stating risks which do not impact on objectives. Equally, care should be taken to avoid defining risks with statements which are simply the converse of objectives.

3.9 Examples of risk definitions are provided at Annex 1.

3.10 Owners should check they have considered the full range of potential risks by reviewing the table in Annex 2 that details the most common types of risk in the public sector.

3.11 The risk types as detailed in Annex 2 are grouped into three categories:

- **external** – arising from the external environment, not wholly within the organisation’s control, but where action can be taken to mitigate the risk;
- **operational** – relating to the successful execution of existing operations – both current delivery and building and maintaining capacity and capability; and
- **change** – risk created by decisions to pursue new endeavours beyond current capability.

3.12 Once identified risks should be assigned to an owner who has responsibility for ensuring that the risk is managed and monitored over time.

3.13 All corporate risks should also be logged in the corporate risk register, which is the Corporation’s risk profile that is maintained by the Corporate Development Team.

3.14 To assist the flow of risks from the different functions in the organisation and to enhance risk awareness and responsiveness, the corporate risk register is split between five business critical sections:

- organisational wide risks;
- investment;
- regulation;
- other field specific risks; and
- transitional risks.

3.15 The Transitional Risks section outlines the risks to delivering the Housing Corporation’s business objectives during the period of transition to the Homes and Communities Agency and the Office for Tenants and Social Landlords.

4 Assessing risks

4.1 There are three important principles for assessing risks:

- ensure that there is a clear structure to the process so that both likelihood and impact are considered for each risk;
- record the assessment of risk in a way which facilitates monitoring and the identification of risk priorities; and
- be clear about the difference between inherent and residual risk.

4.2 For each risk identified, an assessment should be made of the likelihood of it occurring and the relative impact if it does. The more clearly risks are defined at the identification stage, the more easily they can be assessed. Likelihood is the probability or chance of the risk occurring and impact is the probable effect on the Corporation if the risk occurs.

4.3 Some exposures are simpler to deal with than others. For example, financial risks are often easier to consider and assess than those associated with risks to the Corporation's reputation or its ability to provide a service. Where feasible, past events may provide a useful input to assess risks. While the risk identification and assessment is primarily aimed at those events that may occur within the planning period, managers should not ignore risks that are more long term.

4.4 Risk is a major factor to be considered within the management of all change projects. It is

essential to identify, assess and respond to risks to the achievement of project objectives. This is one of the most important parts of the work undertaken by the project board and the project manager.

4.5 All risks should be scored in terms of their likelihood and potential impact using the following five-point scale. The score for the likelihood and impact are multiplied to give an overall risk assessment:

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

4.6 Further guidance on assessing relative likelihood and impact is provided at Annex 3. The information in this annex forms part of the process for deciding when a risk should be increased or reduced. It is included in the corporate risk register to ensure consistent assessments between risk owners.

4.7 The impact descriptors are only an indication of the probable effect on the Housing Corporation if the risk occurs; they are not hard and fast rules. It is essential that staff use their knowledge and judgement when deciding on the score for impact.

4.8 Each risk is assessed twice. First the 'inherent' risk, which is the exposure arising from a specific risk before any action has been taken to manage it. Second the 'residual risk' which is the exposure arising from a specific risk after action has been taken to manage it and making the assumption that the action is effective.

4.9 The inherent risk, the assessment of a risk before controls are put in place, determines the effort required to address the risk. It is vital that the inherent risk is carefully assessed and captured in the risk register to inform others of the exposure to risk the Corporation faces should the mitigating actions be unsuccessful.

4.10 Residual risk, the risk assessment after control has been applied, assumes that the controls in place are going to be effective, and therefore will need to be regularly reassessed to account for the actual effectiveness of the controls and the corresponding adjustments made to them.

4.11 We recognise that it is sometimes the case in the Housing Corporation that the controls we can put in place may have limited impact and therefore the residual assessment is reduced slightly or not at all. This is due to the nature of the social and political environment and the extended enterprise that the Housing Corporation operates. We recognise that this can mean that the Housing Corporation has limited ability to control some of the risks that it faces.

5 Addressing risks

5.1 The purpose of addressing risks is to turn uncertainty to the organisation's benefit by constraining threats and taking advantage of opportunities.

5.2 The appropriate response to each risk will depend on its nature and the outcome of the risk assessment. The degree of attention required should be proportionate to the level of risk and the cost and benefits involved in any action taken to reduce the risk. Also in deciding how to respond to risk, attention should be paid to whether it is the likelihood or impact of a risk that needs most engagement.

5.3 For each risk, the key activities designed to manage the exposure must be defined to support tracking and monitoring of the nature of the risk concerned. This must include both the current risk response – the controls in place at the time of the 'inherent' assessment – and the action planned in the light of the 'residual' assessment, including a target date for implementing the planned action.

5.4 There are five key aspects of addressing risk:

- **tolerate** – the exposure may be tolerable without any further action being taken. Even if it is not tolerable, ability to do anything about some risks may be limited, or the cost of taking any action may be disproportional to the potential benefit gained. In these cases the response may be to tolerate the existing level of risk. This option can be supplemented by contingency planning for handling the impacts that will arise if the risk is realised;
- **treat** – by far the greatest number of risks will be addressed in this way. The purpose of treatment is that whilst continuing within the organisation with the activity giving rise to the risk, action (control) is taken to constrain the risk to an acceptable level;
- **transfer** – for some risks the best response may be to transfer them. This might be done by conventional insurance, or it might be done by paying a third party to take the risk in another way. This option is particularly good for mitigating financial risks to assets;
- **terminate** – some risks will only be treatable, or confinable to acceptable levels, by terminating the activities; and
- **take the opportunity** – this option is not an alternative to those above; rather it is an option which should be considered whenever tolerating, transferring or treating a risk.

5.5 The option 'treat' can be broken into four different types of control:

- **preventative** – to limit the possibility of an undesirable outcome being realised;
- **corrective** – to correct undesirable outcomes which have been realised;
- **directive** – to ensure a particular outcome is achieved; and
- **detective** – to identify occasions of undesirable outcomes having been realised, e.g. post-implementation reviews.

5.6 It is usually sufficient to design control to give a reasonable assurance of constraining likely impact within the risk appetite of the organisation.

6 Risk appetite

6.1 The aim of the risk strategy is not to remove all risk but to recognise that some level of risk will always exist. Indeed it is recognised that taking risks in a controlled manner is fundamental to innovation and developing a can do culture. Risk appetite is the amount of exposure to risk the organisation is prepared to accept or tolerate should the exposure become a reality.

6.2 Exposure to risk refers to the expected likelihood and potential impact of risk occurring after the actions put in place become effective (residual risk).

6.3 Our risk appetite can be expressed as a boundary, above which we will not tolerate the level of risk and further actions must be taken:

Impact Severity	Multiplier					
Catastrophic	5	5	10	15	20	25
Major	4	4	8	12	16	20
Moderate	3	3	6	9	12	15
Minor	2	2	4	6	8	10
Insignificant	1	1	2	3	4	5

	Multiplier	1	2	3	4	5
Likelihood		Rare	Unlikely	Possibly	Likely	Almost Certain

	Key	
Severe	20-25	Unacceptable level of risk exposure which requires immediate corrective action to be taken
Major	12-16	Unacceptable level of risk exposure which requires constant active monitoring, and measures to be put in place to reduce exposure
Moderate	5-10	Acceptable level of risk exposure subject to regular active monitoring measures
Minor	3-4	Acceptable level of risk subject to regular passive monitoring measures
Insignificant	1-2	Acceptable level of risk subject to periodic passive monitoring measures

6.4 The Corporate Risk Appetite is the overall level of exposure to risk that is acceptable for the organisation to tolerate and is agreed by Board. This is any risks with residual assessments of 12 or more.

6.5 An organisation's risk appetite is not necessarily static. The Board may vary the amount of risk which it is prepared to take depending on the circumstances.

6.6 The Board has agreed to focus on monitoring of risks with a score of 12 or more and has delegated to ARC the review and monitoring of the whole register.

6.7 The delegated risk appetite is the agreed level of risk thought tolerable for different levels within the organisation. At the operational level, this is deemed as any risks with residual assessments of 12 or more.

6.8 Projects that fall outside the day-to-day business of an organisation may need their own risk appetite, which would be agreed by the project board.

7 Risk roles and responsibilities

7.1 Responsibility for each risk must be assigned to an owner who is responsible for ensuring that the risk is managed and monitored over time.

7.2 A list of roles and responsibilities for risk management is given in Annex 4.

8 Risk register, risk maps and project risk logs

8.1 The corporate risk register documents the risk assessment, mitigating actions and risk owner for each risk identified. This is maintained by the Corporate Development Team, and reviewed/updated quarterly by EMT. This is a confidential document that is only seen by EMT, ARC, the Board and the Corporate Development Team.

8.2 Each section of the corporate risk register is owned by different sub groups of the Executive Management Team.

8.3 Risk maps (risk tolerability matrix) display the risks within the risk register to make it easier to assess the relationship of assessed risks to the organisation's risk appetite. They can be produced by the Corporate Development Team on request.

8.4 Operational risk registers document the risks to achieving operational targets, the mitigating actions and assessments of the risks. These are maintained within the operational directorate and reviewed at least six monthly as part of the performance monitoring process carried out by the Corporate Development Team.

8.5 For every change project, the risks identified, their assessment, the response to each and the risk owner should be documented in the project risk log to support tracking and monitoring. The Corporate Development Team reviews project risk logs every six months to determine if any risks need to be escalated to the corporate risk register.

9 Reviewing and reporting risks

9.1 The management of risks has to be reviewed and reported on for two reasons:

- to monitor whether or not the risk profile is changing; and
- to gain assurance that risk management is effective, and to identify when further action is necessary.

9.2 The review process will:

- ensure that all aspects of the risk management process are reviewed at least once a year;
- ensure that risks themselves are subject to review at least quarterly;
- identify new risks and changes in already identified risks so that the change can be appropriately addressed;
- deliver assurance on the effectiveness of control;
- ensure that staff are identifying and escalating risks;
- ensure that managers are managing risks within their area of control; and
- ensure that heads of functions discuss risk regularly with their managers.

9.3 The Risk Management Strategy will be reviewed once a year, initially by the Executive Management Team, followed by the Audit and Risk Committee and the Board.

9.4 The risk register is a live document. Staff and Board members are encouraged to notify the Corporate Development Team at any stage of potential changes to the register. The register will be formally reviewed and updated quarterly by the Executive Management Team. The updated register will then be reviewed by the Audit and Risk Committee, followed by the Board.

9.5 Relevant sections from the updated register will also be reviewed by the Investment Committee, and the Registration and Regulation Committee.

9.6 The risk management processes described in this document operates in the context of a wider assurance framework within the organisation, as shown at Annex 5.

9.7 In addition to the mechanism of monitoring and reviewing the risk register, the Housing Corporation has the following other internal control and assurance mechanisms:

- on an annual basis, members of EMT are required to confirm that to the best of their knowledge and belief the risks have been regularly identified and assessed, and key risks have been effectively managed;

- the Head of Internal Audit also provides an annual written report to the Chief Executive and the Audit and Risk Committee outlining Internal Audit's opinion of the overall adequacy and effectiveness of the organisation's risk management, control and governance processes, including their relevant strengths and weaknesses, and timed to support and inform the completion of the annual Statement of Internal Control; and
- as a part of its external audit work, the National Audit Office reviews compliance with HM Treasury's guidance, Corporate Governance: Statement of Internal Control, and reports if it does not meet the requirements for disclosure specified, or if the statement is misleading or inconsistent with other information identified from its audit of the financial statements.

10 Communication and learning

10.1 Communication and learning is not a distinct stage in the management of risk; rather it is something which runs through the whole process.

10.2 The identification of new risks or changes in risk is itself dependent on communication between staff at all levels in the Corporation, and with our extended enterprise.

10.3 In previous versions of this strategy, risk management has largely been seen to be the remit of staff at 'head of' levels or above (with the exception of project team members who review project related risks). During the lifetime of this strategy it is intended that staff at manager/specialist level and below be included in the process for identifying and escalating risks to their managers. This will be achieved through a series of briefings, and discussions with all staff on case studies, that show staff how the process for identifying and escalating risks actually works.

10.4 Externally, the organisation needs to maintain a good network of communications with relevant contacts and sources of information to facilitate identification of changes which affect the Corporation's risk register.

10.5 Internally, it is important to embed risk management, ensuring that all staff understand, in a way that is appropriate and relevant to their role, what the risk strategy is and their role in managing risks and keeping the risk register up to date.

10.6 This will be achieved through these activities:

- the Executive Management Team will review the risk management strategy and sign up to its principles and processes;
- the Executive Management Team will ensure that heads are managing and monitoring risks effectively;
- the Executive Management Team will promote the principles and processes of the risk management strategy to all their staff;
- the Corporate Management Group (CMG) will gain regular assurance from managers that risks within their area of control are being managed to the best effect;
- CMG will brief their staff on the process for identifying and escalating risks using case studies, and will discuss risk on a ongoing basis;
- staff will assess risks in their operational activities and will identify and escalate risks to their managers; and
- the strategy will be published on the intranet together with a guide on the principles, a guide on the processes and process maps.

10.7 Communication with partner organisations about risk issues is essential to ensure understanding of respective risk priorities. Arrangements for doing this with specific partners are outlined in the following section.

11 The extended enterprise

11.1 The Housing Corporation is not self-contained. We have a number of interdependencies which impact on our risk management and which give rise to additional risks which need to be managed.

11.2 Interdependencies that we have include those with our sponsor CLG, the Treasury, the housing sector in general, English Partnerships, the Audit Commission, local authorities, other government bodies and companies in the private sector, for example private developers.

11.3 Since the onset of the transition to the Homes and Communities Agency and the Office for Tenants and Social Landlords, our extended enterprise has taken on greater importance:

- we are becoming increasingly interdependent with English Partnerships as we embark on the transition to the Homes and Communities Agency;
- our interdependencies with the Audit Commission are of greater importance during the transition to the Office for Tenants and Social Landlords; and
- we are increasingly dependent on CLG and the transition project board for direction as they lead the change programme to both agencies.

11.4 Effective communications and good relations during the transitional period will be paramount to achieving effective management of risks.

11.5 Our regulatory and investment arrangements embed risk management in relation to delivery partners and lenders. For example, through the published Housing Corporation Assessments and risk-based regulation for housing associations, through our investment procurement arrangements and through our regular stakeholder liaison meetings with the Council for Mortgage Lenders and the National Housing Federation.

11.6 Other risks are managed through contractual arrangements with suppliers, e.g. for our ICT contract supplier, our IS development suppliers and the suppliers that we work with to capture regulatory data and undertake research in pursuit of our objectives.

11.7 Specific arrangements to manage external interdependencies include:

- CLG – in addition to the formal frameworks set out in the Management Statement and Financial Memorandum, we have regular liaison meetings with our sponsor Department;
- English Partnerships – in addition to operational relationships, our Chief Executive is a member of the English Partnerships board, and vice versa. Regular liaison meetings are held;
- Audit Commission – in addition to operational relationships, we have a documented Memorandum of Understanding which is published on our website. Regular liaison meetings are held; and
- the relevant Housing Corporation Field Director or Head of Investment is a member of the relevant Regional Housing Board.

12 Environment and context

12.1 The Housing Corporation's activities are impacted by the macro economy, political climate, changes in law, the housing markets, wider cultural and social factors relating to housing and the spatial environment. Also of great significance are the expectations of our stakeholders, in the housing and related sectors, and amongst our end users – the beneficiaries of our affordable housing activities.

12.2 Our relationship with Government and Parliament is fundamental to our purpose. We explicitly consider risk management in policy making, aiming to include a proportionate and wide-ranging consideration of risk prior to policy proposals moving into full development.

12.3 As a part of policy making, risks should be identified and tested throughout evidence gathering and scenario planning, and assessed as a part of the evaluation of the range of options. Risks inherent within the proposed policy option are added to, tested and refined through the consultation process.

Annex 1 Example of risk definitions

Risk	Inherent assessment		Actions in place		Residual assessment		Action planned	Target date	Owner
	L	I	L	I	L	I			
Corporate organisational wide									
1.1	3	3	9	3	2	3	6	2006	DoP&C
	Failure to clearly define role of Housing Corporation and housing associations in respect of neighbourhood renewal and tackling community cohesion leading to reputational risk		Treat Engage with SEU and NRU by 2006 to develop clear defined policy/strategies for the role of the sector in these areas		Tolerate				
Investment									
2.1	1	4	4	4	1	4	4	N/A	DoR
	Failure in health and safety procedures lead to significant incident and consequent damage to employees' or others' health, financial loss [compensation] and reputation.		Treat Health and Safety Committee in place. Sufficient trained health and safety officers. Regular dialogue with staff side.		Tolerate No further action required at this time.				

KEY:

L = Likelihood 5 Almost certain 4 Likely 3 Possible 2 Unlikely 1 Rare

I = Impact 5 Catastrophic 4 Major 3 Moderate 2 Minor 1 Insignificant

Annex 2 Risk categories

Category	Examples/explanation
1. External – arising from the external environment, not wholly within the organisation’s control, but where action can be taken to mitigate the risk	
1.1 Political	Changes in government priorities and direction threaten commitment to our strategies and/or the availability of resources. Could be caused by cross-cutting policy decisions, machinery of government changes.
1.2 Economic	Economic movements such as interest rates, exchange rates, inflation etc. affect our strategies and/or ability to deliver. The ability to attract and retain staff in the labour market.
1.3 Socio-cultural	Social changes such as needs, expectations, attitudes etc. affect our strategies and/or ability to deliver. Demographic change may affect demand for our services.
1.4 Technological	If we do not take opportunities arising from technological innovation we may not achieve optimum performance. Could be caused by obsolescence of current systems or cost of procuring best technology available.
1.5 Legal	Changing laws threaten our ability to efficiently develop or implement specific strategies.
1.6 Environmental	Buildings need to comply with changing standards. Disposal of rubbish and surplus equipment needs to comply with changing standards.
1.7 Housing sector	Changes in capacity, capabilities, and other factors within the housing sector threaten our ability to achieve desired outcomes.
2. Operational – relating to existing operations – both current delivery and building and maintaining capacity and capability	
2.1 Delivery	<p>Project management – changes to systems and processes fail to deliver in terms of service quality, cost or time.</p> <p>Services - failure to deliver our services expose us to financial loss, complaints and criticism, impact our external reputation and adversely affect stakeholders’ decisions.</p>

<p>2.2 Capacity and capability</p>	<p>HR – a lack of requisite knowledge, skills and experiences among our workforce through problems of recruitment and retention threaten the execution of our strategies and achievement of objectives.</p> <p>Fraud – fraudulent activities perpetrated by employees, suppliers, customers or others against the Corporation expose us to financial loss, impact our external reputation and adversely affects stakeholders’ decisions.</p> <p>Resources – insufficient financial resources may threaten our ability to achieve our priorities and deliver our targets.</p> <p>Poor budget management – this may lead to inappropriate financial conclusions and decisions.</p> <p>Physical assets – their loss/damage/theft may affect our ability to achieve our priorities and deliver our targets.</p> <p>Information – inadequately restricted access to information may result in unauthorised knowledge of or use of confidential information, or overly restricted access may preclude employees from performing efficiently or effectively.</p> <p>IT availability – information is unavailable when required threatening the continuity of key services.</p> <p>IT infrastructure – the information infrastructure (e.g. hardware, networks, software, people and processes) may not effectively support current and future information requirements in an efficient, cost-effective and well controlled manner.</p> <p>Strategic partnerships – inefficient or ineffective alliance, joint venture, affiliation or other strategic relationships affect our capacity to deliver services.</p> <p>Operations – lack of overall capacity and capability may restrict our ability to deliver our priorities and meet our targets.</p> <p>Reputation – our external reputation affects the confidence and trust which stakeholders have in the organisation and our scope to act as desired.</p>
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2.3 Risk management performance and capability	<p>Governance – failure to maintain propriety and compliance with relevant requirements and ethical considerations may affect our external reputation and adversely affect stakeholders’ decisions.</p> <p>Scanning – a failure to identify threats and opportunities may adversely affect our ability to deliver our priorities or maintain our external reputation.</p> <p>Resilience – a failure in the capacity of systems/accommodation/IT to withstand adverse impacts and crises; our disaster recovery/contingency planning; and security of physical assets and information may expose us to financial loss or wasted resources, complaints or criticism, threaten our ability to continue operations, impact our external reputation and adversely affects stakeholders’ decisions.</p>
3. Change – risks created by decisions to pursue new endeavours beyond current capability	
3.1 New projects/policies	<p>Projects – unless optimal investment decisions/prioritising between projects competing for resources is optimal, this may prevent us from channelling scarce resources to areas that provide the optimum performance return.</p> <p>Policy – policy decisions may create expectations which lead to uncertainty about what the Housing Corporation has to deliver.</p>
3.2 Change programmes	Programmes for organisation or culture change threaten our ability to deliver our current priorities.

Annex 3 Assessment and evaluation of risks

Assessment of risk

For each risk identified, an assessment should be made of the likelihood of it occurring and the relative impact if it does. The more clearly risks are defined at the identification stage, the more easily they can be assessed. Likelihood is the probability or chance of the risk occurring and impact is the probable effect on the Corporation if the risk occurs.

Some exposures are simpler to deal with than others. For example, financial risks are often easier to consider and assess than those associated with risks to the Corporation's reputation or its ability to provide a service. Where feasible, past events may provide a useful input to assess risks. While the risk identification and assessment is primarily aimed at those events that may occur within the planning period, managers should not ignore risks that are more long term.

Evaluation of risk

When evaluating risk, the following criteria need to be considered:

- financial and value for money issues;
- human resource issues – capacity, relations and others;
- service delivery and quality of service issues;
- public concern, trust or confidence issues;
- degree and nature of risks to the public;
- reversibility or otherwise of realisation of risks;
- the quality or reliability of evidence surrounding the risk;
- the impact of the risk on us (including its reputation), stakeholders (including RSLs) and the public; and
- defensibility of realisation of the risk.

All risks should be scored in terms of their likelihood and potential impact using the following five-point scale. The score for the likelihood and impact are multiplied to given an overall risk assessment:

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

The impact descriptors are only an indication of the probable effect on the Housing Corporation if the risk occurs; they are not hard and fast rules. It is essential that staff use their knowledge and judgement when deciding on the score for impact.

In particular when assessing financial impact staff and Board members should take account of the potential cumulative effect of what might be considered smaller sums on the overall resource constraints of the organisation. For example, the failure of a number of individual investment schemes could have a cumulative and significant impact on the overall level of underspend of the resource investment programme.

In addition staff and Board members should consider different financial thresholds for risks that impact on the Resource Investment, Resource Consumption and Capital Administration budgets as detailed in the impact assessment descriptors below.

Likelihood descriptors

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 at the Corporation, e.g. on an annual basis; and
- If new event, likelihood of occurrence regarded as almost inevitable (3:1).

Likely: Likelihood greater than 50%

- There is a strong possibility the event or risk will occur (more than 2:1);
- There may be a history of frequent occurrences at the Corporation;

- 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 at the Corporation;
- Most of the team know that the risk might occur; and
- Measures that reduce likelihood have been taken but are not fully effective.

Unlikely: Likelihood between 1% and 10%

- Not expected, but there's a slight possibility it could occur at some time;
- Some of the team consider this a risk that might occur;
- Conditions exist for this loss to occur; and
- Probably requires more than two coincident events.

Rare: Likelihood less than 1% likelihood

- Highly unlikely, but it may occur in exceptional circumstances;
- It could happen, but probably never will;
- No experience of a similar failure;
- Probably requires three or more coincident events; and
- If it has happened, sufficient controls now in place.

Impact descriptors

Description	Financial impact	Health and safety	Asset loss	Business interruption	Reputation and image	Corporate objectives /Performance	Intervention						
Insignificant	0.5% of one of three main budget headings, i.e. a risk value of: <table border="1" data-bbox="411 1467 614 1768"> <tr> <td>Capital investment</td> <td>£10 million</td> </tr> <tr> <td>Near and non-cash</td> <td>£260,000</td> </tr> <tr> <td>Capital admin</td> <td>£20,000</td> </tr> </table>	Capital investment	£10 million	Near and non-cash	£260,000	Capital admin	£20,000	No or only minor personal injury. First aid needed, but no days lost.	Little or no impact on assets.	Interruption negligible; less than half a day. Critical systems unavailable for less than one hour.	Minor article in local media or lobby group website. (Story unsubstantiated.)	Workaround required, within Housing Corporation resources, to deliver objective. Minor shortfall in objective in one category of housing need. Up to 5% variation in achievement of corporate targets.	Housing Corporation Chief Executive intervenes.
Capital investment	£10 million												
Near and non-cash	£260,000												
Capital admin	£20,000												
Minor	1% of one of three main budget headings, i.e. a risk value of: <table border="1" data-bbox="997 1451 1220 1768"> <tr> <td>Capital investment</td> <td>£21 million</td> </tr> <tr> <td>Near and non-cash</td> <td>£520,000</td> </tr> <tr> <td>Capital admin</td> <td>£40,000</td> </tr> </table>	Capital investment	£21 million	Near and non-cash	£520,000	Capital admin	£40,000	Minor injury, medical treatment and some days lost.	Minor loss or damage to assets.	Interruption inconvenient; half – one day. Critical systems unavailable for several hours.	Headline article in local media or housing press, minor article in national media. (Story substantiated.)	Additional resources requiring CLG authorisation or delay in achieving part of objective. Minor shortfall in several categories or major shortfall in one category. 5 – 10% variation in achievement of corporate targets.	RSL chief executive or equivalent seeks intervention by CLG.
Capital investment	£21 million												
Near and non-cash	£520,000												
Capital admin	£40,000												

<p>Moderate</p>	<p>2% of one of three main budget headings i.e. a risk value of:</p> <table border="1" data-bbox="213 1453 419 1768"> <tr> <td>Capital investment</td> <td>£42 million</td> </tr> <tr> <td>Near and non-cash</td> <td>£1.04 million</td> </tr> <tr> <td>Capital admin</td> <td>£80,000</td> </tr> </table> <p>And arrangements cannot be agreed with the CLG sponsor team to bring forward, defer or vire resources to mitigate or reduce the severity of the risk.</p>	Capital investment	£42 million	Near and non-cash	£1.04 million	Capital admin	£80,000	<p>Serious medical treatment. Hospitalisation and numerous days lost.</p>	<p>Major damage to assets.</p>	<p>Interruption one day – one week. Client dissatisfaction; Critical systems unavailable for up to one day.</p>	<p>Headline article in national media. (Story substantiated and publicly embarrassing.)</p>	<p>Major compromise in objectives. Major shortfall in several categories. 10 – 25% variation in achievement of corporate targets.</p>	<p>CLG Permanent Secretary intervenes.</p>
Capital investment	£42 million												
Near and non-cash	£1.04 million												
Capital admin	£80,000												
<p>Major</p>	<p>6% of one of three main budget headings i.e. a risk value of:</p> <table border="1" data-bbox="820 1453 1026 1768"> <tr> <td>Capital investment</td> <td>£126 million</td> </tr> <tr> <td>Near and non-cash</td> <td>£3.12 million</td> </tr> <tr> <td>Capital admin</td> <td>£240,000</td> </tr> </table> <p>And arrangements cannot be agreed with the CLG sponsor team to bring forward, defer or vire resources to mitigate or reduce the severity of the risk.</p>	Capital investment	£126 million	Near and non-cash	£3.12 million	Capital admin	£240,000	<p>Single death or extensive injuries or long-term illness.</p>	<p>Significant loss of assets.</p>	<p>One week – one month Critical systems unavailable for one day or a series of prolonged outages.</p>	<p>Short-term campaign in national media. (Story substantiated, publicly embarrassing with third party actions.)</p>	<p>Elements of objective abandoned. Fail to meet needs of a housing need category. 25-50% variation in achievement of corporate targets.</p>	<p>Housing Minister intervenes.</p>
Capital investment	£126 million												
Near and non-cash	£3.12 million												
Capital admin	£240,000												

Catastrophic	<p>In excess of 10% of two resources budget headings and 20% in excess of the Capital admin budget, i.e. a risk value of:</p> <table border="1"> <tr> <td>Capital investment</td> <td>Over £210 million</td> </tr> <tr> <td>Near and non-cash</td> <td>Over £5.2 million</td> </tr> <tr> <td>Capital admin</td> <td>Over £400,000</td> </tr> </table> <p>And arrangements cannot be agreed with the CLG sponsor team to bring forward, defer or vire resources to mitigate or reduce the severity of the risk.</p>	Capital investment	Over £210 million	Near and non-cash	Over £5.2 million	Capital admin	Over £400,000	Multiple deaths or severe permanent disabilities.	Complete loss of assets.	Interruption more than one month. Critical systems unavailable for more than a day (at a crucial time).	Prolonged national media campaign or lobby group campaign. Story substantiated, publicly embarrassing, with third party action and widespread news profile.	Unable to deliver objective. Widespread failure to meet housing needs. More than 50% variation in achievement of corporate targets.	Secretary of State intervenes or Parliamentary committee hearing.
		Capital investment	Over £210 million										
		Near and non-cash	Over £5.2 million										
		Capital admin	Over £400,000										

The above information forms part of the process for deciding when a risk should be escalated or reduced.

Annex 4 Risk management – Roles and responsibilities

Board

The Board has responsibility for ensuring that the Corporation fulfils the aims and objectives set out by the Secretary of State and for promoting the efficient and effective use of staff and other resources by the Corporation. The Board shall demonstrate high standards of corporate governance at all times, including using the Audit and Risk Committee to help the Board to address the key financial and other risks facing the Corporation.

Only risks with a residual level of 12 or more on the register are submitted to the Board.

Audit and Risk Committee

The Audit and Risk Committee is responsible for ensuring proper arrangements exist for risk management and internal control.

It considers and advises the Board on:

- the strategic processes and policies for risk, control and governance and Statement of Internal Control, including the content of the Statement of Internal Control, prior to endorsement by the Board;

- the promotion, co-ordination and monitoring of risk management activities, including regular review and input to the corporate risk profile; and
- assurances relating to the adequacy and effectiveness of risk, control and governance processes for the organisation, with particular reference to the management of key risks to the achievement of objectives and targets.

The Audit and Risk Committee will be provided with:

- a report summarising any significant changes to the Corporation's Risk Register for each meeting; and
- the Corporation's Risk Management Strategy, Risk Register and proposals for continuous improvement of the risk management process and culture as appropriate.

Regulation and Supervision, Investment Committees will provide feedback on the Risk Register to Audit and Risk Committee.

Chief Executive

The Chief Executive is personally responsible for safeguarding the public funds for which he/she has charge; for ensuring propriety

and regularity in the handling of those funds; and for the day-to-day operations and management of the Corporation.

In managing risk the Chief Executive is responsible for ensuring that:

- a system of risk management is maintained to inform decisions on financial and operational planning and to assist in achieving objectives and targets;
- the Board is involved in the risk management system; and
- a Risk Register is maintained in accordance with the Treasury's Orange Book.

This includes:

- setting and communicating the risk management strategy;
- providing leadership and direction over the risk management process;
- regularly reviewing the risk register; and
- conducting an annual review of the effectiveness of the system of internal control in support of the Statement of Internal Control.

Executive Directors, other managers, project managers, project boards, policy owners

Everyone with a line or project management role is responsible for assessing and communicating risks within their sphere of responsibility, including judging when a risk should be considered for inclusion in the corporate risk register or project risk log.

Risk workshops will be held to help ensure that the risk register is kept up to date.

Risk owners

Risk owners are responsible for ensuring that each risk assigned to her/him is managed and monitored over time.

All staff

Whilst this strategy document sets out defined processes for managing risk, successful risk management can only be accomplished on a day-to-day basis by staff at all levels through their working practices; it does not simply lie inert in corporate policies and management structures.

Risk management is part of every member of staff's responsibilities and virtually everyone has a role in carrying out appropriate risk management by supporting risk identification and assessment, and designing and implementing risk responses. This will be achieved through core briefings, team meetings and one-to-one sessions, etc.

Deputy Chief Executive and the Corporate Development Team

The Deputy Chief Executive, through the Corporate Development Team, co-ordinates the risk management process and works with managers in establishing effective risk management in their areas of responsibility. The team is not responsible for the management of risks. It is responsible for developing and implementing the process and maintaining the risk register document. The Corporate Development Team will facilitate discussion of risk with local and cross functional management teams as an integral part of the half-year review of Operational Plans.

Internal Audit

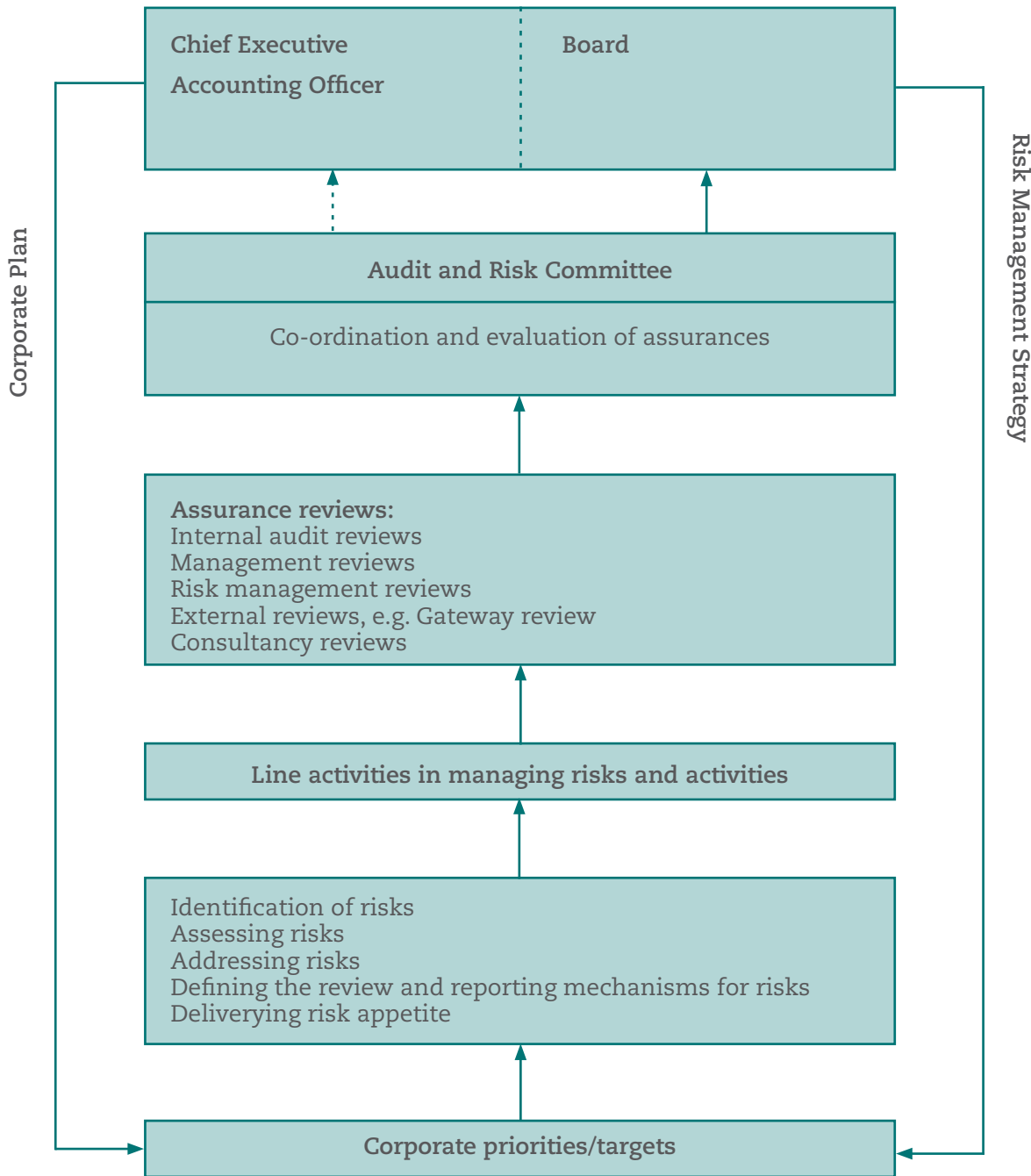
The Internal Audit team plays a key role in evaluating the effectiveness of, and recommending improvements to, the risk management process. This is based on the systematic review and evaluation of the policies, procedures and operations in place to:

- establish, and monitor the achievement of, the organisation's objectives;
- identify, assess and manage the risks to achieving the organisation's objectives;
- advise on, formulate and evaluate policy;
- ensure the economical, effective and efficient use of resources;
- ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
- safeguard the organisation's assets and interests from losses of all kinds, including fraud, irregularity or corruption; and
- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

In addition, Internal Audit aims to add value through:

- supporting and facilitating the identification of risks and the development of processes and procedures to assess and effectively respond to risks;
- the identification and recommendation of potential process improvements;
- the provision of advice to manage risks in developing systems, processes, projects and procedures; and
- the provision of best practice advice to all sections of the Corporation; and encouraging best practice and engendering continuous improvement.

Annex 5 The assurance model



Annex 6 Glossary of key terms

Assurance	An evaluated opinion, based on evidence gained from review, on the organisation's governance, risk management and internal control framework
Exposure	The consequences, as a combination of impact and likelihood, which may be experienced by the organisation if a specific risks realised
Impact	The probable effect on the Corporation if the risk occurs.
Inherent risk	The exposure arising from a specific risk before any action has been taken to manage it
Likelihood	The probability or chance of the risk occurring
Residual risk	The exposure arising from a specific risk after action has been taken to manage it and making the assumption that the action is effective
Risk	Uncertainty of outcome, whether positive opportunity or negative threat, of action and events. It is the combination of likelihood and impact
Risk appetite	The amount of risk that an organisation is prepared to accept, tolerate, or be exposed to at any point in time
Risk assessment	The evaluation of risk with regard to the impact if the risk is realised, and the likelihood of the risk being realised
Risk management	All the processes involved identifying, assessing and judging risks, assigning ownership, taking actions to mitigate or anticipate them, and monitoring and reviewing progress
Risk register	The documented and prioritised overall assessment of the range of specific risks faced by the Corporation

Our offices

Maple House
149 Tottenham Court Road
London W1T 7BN

For enquiries, contact us at:

Tel: 0845 230 7000

Fax: 0113 233 7101

E-mail: enquiries@housingcorp.gsx.gov.uk

Internet: www.housingcorp.gov.uk

CENTRAL

Attenborough House
109/119 Charles Street
Leicester LE1 1FQ

Waterloo Court
31 Waterloo Road
Wolverhampton WV1 4DJ

Trinity House
Cambridge Business Place
Cowley Road
Cambridge CB4 0WZ

LONDON

Maple House
149 Tottenham Court Road
London W1T 7BN

NORTH

4th Floor
One Piccadilly Gardens
Manchester M1 1RG

1 Park Lane
Leeds LS3 1EP

St. George's House
Team Valley
Kingsway Trading Estate
Gateshead NE11 0NA

SOUTH EAST

Leon House
High Street
Croydon CR9 1UH

SOUTH WEST

Beaufort House
51 New North Road
Exeter EX4 4EP