LODDON HOMES

RISK POLICY

1. Introduction

1.1. Under the Homes and Communities Agency's (HCA) Governance Standard, Registered Providers are required to ensure effective governance arrangements are in place including having 'an effective risk management and internal controls assurance framework', and 'to protect social housing assets'. Similarly, the HCAs Financial Viability Standard requires Registered Providers to 'manage their resources effectively to ensure their viability is maintained while ensuring that social housing assets are not put at undue risk'.

1.2. As a For-Profit Registered Provider (FPRP), Loddon Homes will be a highly efficient landlord that delivers good services to tenants at affordable rents, while driving its profit margins to be able to invest back in to new affordable housing or other Council services. To do this Loddon Homes Limited (LHL) will embrace new opportunities and innovative ways of doing things where appropriate and recognises that such an approach will have higher risks associated with it.

1.3. Therefore the aim of LHLs Risk Policy is to identify, manage and minimise risks, rather than eliminate risks which may prevent the organisation from its core objectives of delivering affordable housing in Wokingham Borough and producing a profit. The identification and management of risk is on-going process and will occur as changes are made as LHL grows and responds to the external environment in which it operates.

1.4. Our Risk Policy articulates how we manage risk in line with the HCAs and our own requirements and expectations. The management of risk is a continuous process that is linked to LHLs annual business planning process, which aligns with Wokingham Housing Limited's (WHL) business planning, as LHLs direct parent, and also more widely within the Wokingham Borough Council's (WBC) Group of companies, overseen by WBC (Holdings Limited (Holdco). The Risk Policy is designed to identify and prioritise the risks relevant to the achievement of LHLs objectives and targets.

1.5. This Risk Policy outlines the arrangements and processes by which LHL identifies, categorises, assesses and addresses risk within the Risk Map. Risks are regularly reviewed and assessed, with appropriate mitigations to avoid or manage risks.

1.6. Whilst the Policy sets out the defined processes for managing risk, LHL recognises that successful risk management can only be accomplished on a day-to-day basis by staff and LHLs key partners at all levels.

2. Objective of this policy

2.1. Central to LHL risk management approach is its processes and framework for risk management. However, LHLs grandparent – Holdco - is also committed to embedding risk management throughout its companies and therefore each companies systems and controls must be designed to ensure that exposure to significant risk is properly managed. The LHL Board has set out its policy on risk and its internal controls, as well as having responsibility for determining strategic direction and providing oversight of risk management.

3. Risk Overview

3.1. Risk is defined as "a person or thing regarded as a threat or likely source of danger/ the possibility that something unpleasant or unwelcome will happen." Therefore by its nature unmanaged risk is a problem for a business.

3.2. Risk is best looked at by making an assessment of the combination of likelihood of something happening with the impact that arises if the risk does materialise.

3.3. Risk management has to balance the benefits of putting resources in to managing risk against the cost of not doing something else. As a small team, LHL has to be mindful of the cost-benefit trade of it approach to managing risk.

3.4. The term 'risk appetite' is used to refer to the amount of risk which LHL is prepared to accept, tolerate or be exposed to at any point in time.

3.5. LHLs Risk Policy looks to implement the following broad process in the management of risk:

- Risks are identified in relation to the achievement of our objectives and targets;
- Risks are assessed by reference to their relative likelihood and impact;
- The identified risks are responded to, taking into account LHLs assessment and tolerance;
- Risks are reviewed and reported – to ensure the risk register is up to date, to gain assurance that responses are effective, and
- Identify when further action is necessary.

3.6. In managing risk LHL aims to take a proactive approach, anticipating and influencing events before they happen and facilitating informed decision making.

3.7. LHLs approach to risk is based around assessment, evaluation, management and measurement In effect LHL:

- Assesses – identifies important projects and parts of the business;
- Evaluates – considers what risks each of the key projects and elements of the business face, and then captures these within the Risk Register;
- Measures – scores the risk to provide a priority to the key risks to focus on; and
- Manages – sets out the actions LHL and partners can undertake to minimise the risk.

4. Assessing Risks

4.1. LHLs Risk Policy is based on five important principles for assessing risk. These are:

- Ensuring that there is a clear structure to the process so that both likelihood and impact are considered for each risk;
- Recording the assessment of risk in a way which helps monitoring and the identification of risk priorities;
- Being clear about the difference between inherent and net risk;
- Regularly reviewing risk to assess whether risks have changed; and
- Assigning clear responsibility for managing identified risks, overseen regularly by the Board.

4.2. To evaluate risk, all risks are scored in terms of their likelihood and potential impact based on the Risk Register set out in table 1 below. The score for the likelihood and impact are multiplied together to give an overall risk assessment.

Table 1 – LHL Risk Register

No	Description of Risk	Risk Impact	Inherent Risk Score Likelihood x Impact before controls			Controls Currently in place to manage risk/ Current or proposed	Net Risk Score Likelihood x Impact after controls applied			Review Date	Responsibilty
			Impact (1-5)	Likelihood (1-5)	Gross Risk Score		Impact (1-5)	Likelihood (1-5)	Net Risk Score		
1	Government announcement on changes to section 106 affordable housing requirments in development towards discounted first time buyer homes products	No further commuted sums from developer contributions or possible re-negotiations on signed section 106 agreements reducing expected commuted sums	5	3	15	Monitor latest Govt guidance etc and plan to fund business through lending on assets built from commuted sums/ argue case for no re-negotiations of signed 106s/ argue for a proportion of future CIL and New Homes Bonus funding to subsidies affordable housing development	5	2	10	Feb-16	MD/ Board
2	Rent controls limit income growth in future years and more rent reductions imposed/ and-or CPI+1% after 2020 is not re-introduced	Less profit created to invest in new homes - fewer properties built	5	3	15	Ongoing monitoring of political and regulatory environment to assess potential for policy amendment/ modelling of severity of impact on future business growth	3	3	9	Feb-16	FD/ Board

5. Risk Appetite

5.1. The aim of the Risk Policy is not to remove all risk, but to recognise that some level of risk will always exist. It is recognised that taking risks in a controlled manner is fundamental to embracing new opportunities and innovating. Risk appetite is the amount of risk that LHL is prepared to accept, tolerate or be exposed to at any point in time. Risk appetite can be expressed as a 'boundary', beyond which LHL will not pursue or only undertake if further actions to mitigate the risk are put in place to reduce the risk score.

5.2. Risk appetite is monitored by the inherent and net risk assessment figures. LHL uses a traffic light system to prioritise the key risks. LHLs policy is to actively manage **all** risks because some net risk scores are only low due to the mitigation actions proposed and remain a potentially higher risk if actions are not followed through.

5.3. Red flagged risks are very closely monitored because despite mitigation actions, the net risk score is still at a relatively high level. Red flagged risks are determined by the Board's guidance (currently flagged 10+). LHL will not generally tolerate risks scoring 16 or more and will not pursue or only undertake projects/ opportunities if further actions to mitigate the risk are put in place to reduce the risk score to 15 or below.

5.4. Amber and green flagged risks are determined by the Board's guidance (currently amber flagged risks 5-9 and green risks 4 or less).

5.5. The Group'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. Board Risk Monitoring and Assurance

6.1. The LHL Board has agreed its responsibility with regard to risk as part of its Terms of Reference (TOR) and has set up a separate Audit Committee who has a remit over the management of the risk environment. The LHL Board will formally appraise risk annually as part of an annual strategy event and will receive and discuss the HCAs annual risk review as part of this exercise.

6.2. LHLs Risk Register is to be updated quarterly by the Audit Committee and then considered further at the next LHL Board meeting.

6.3. In order to ensure that the risks are correctly identified and managed, the risk register is also kept under regular review by the MD. The HCA's quarterly risk advice is considered as it becomes available and worked in to both the regular MD evaluation and quarterly Audit Committee.

6.4. As well as the controls set out in the risk register to mitigate the identified financial risks, the steps the Board take to monitor and minimise the risks include:

- *Business Plan Approval* – Wokingham Housing Limited, through the Intra-Group Agreement (IGA) and the Group Operating Protocol with Holdco, is responsible for leading the process for the development and approval of the LHL Business and Financial Plan. Within the IGA there is a clear process to ensure the financial plans of LHL and it's parent WHL, are examined in detail, with clear annual parameters for the activities of two companies agreed;
- *On-going Management of the Plans* – After the business plan has been agreed, the LHL and WHL Boards, the Holdco Board, as well as the Council's Executive, receive regular management reports that report on progress against the business plan. Where there is a risk to delivery, this is identified and remedial action recommended. The responsibility for preparing the reports that monitor performance are prepared by the Corporate Performance function, with input from LHL, WHL and Holdco;
- *Budget* – A budget has been developed to support the business plan and is reported on a monthly basis to Holdco through management accounts. Variances to the budget are

reported to Holdco on a monthly basis (because of its current monthly meeting cycle) and to the LHL and WHL Boards on a bi-monthly basis.

7. Internal Audit

7.1. The Audit Committee's management of the risk environment will include the programme of internal audit 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;
- The provision of best practice advice to encourage good practice throughout the business and driving further improvement.

8. Activities to Support the Risk Register

8.1. There are complimentary activities which support risk management. These must also be revisited or undertaken to ensure that the risk register is well informed and up to date in managing risk. The three most important areas lie in:

- Stress testing the financial data within the Business Plan;
- The Asset and Liability Register; and
- Ensuring market intelligence and the impact of Government policy on the business is captured and available.

8.2. *Stress testing* on the financial plan includes:

- identification of the key assumptions;
- evaluating the impact of a range of scenarios on each risk; and
- appraising the impact of 'the perfect storm' in assessing multiple financial risks hitting the business and what factors would break the business.

8.3. The *asset and liability register* is important because it looks forward to the worth of future assets and more importantly the short, medium and long term liabilities in maintaining assets. The value of maintaining good quality and accurate registers of assets and liabilities for managing the business from day one, and understanding the risks associated with managing rented property, is a key data set to help inform the risk register.

8.4. *Market intelligence* is critical to ensuring the risk register reflects the true and likely risks that may affect the success and protection of the business and its customers. This has two elements in terms of general housing market understanding and also, particularly relevant at present, Government policy impacts on the business.

8.5. Keeping abreast of these three key areas will greatly help ensure that the risk register and processes that manage risk are well informed and support insightful debate around the risks that face the business and the best ways to mitigate them.

9. Policy monitoring and review

9.1. LHL will monitor and review the Risk Policy to ensure that it continues to provide the best possible basis for managing risk. The policy will be constantly reviewed over the next 12 months to ensure it is fit for purpose and able to fully protect LHLs business and its customers.

9.2. The policy will be formally reviewed and updated in December 2017.