ITEM B4

DRAFT RISK STRATEGY AND POLICY

Report of the Director and Company Secretary

1. SUMMARY

1.1 This report provides detail of the draft Risk Policy, Strategy and Management Framework.

2. RECOMMENDATION

2.1 The Board is requested to approve the draft Risk Policy, Strategy and Management Framework as contained in Appendices 1, 2 and 3.

3. MATTER FOR CONSIDERATION

3.1 In December 2009, Derby Homes received an Internal Audit Report on Risk Management. The report identified risk as an area of medium risk to the organisation and made 6 recommendations for control improvements.

3.2 The financial and non financial impacts of the identified risks are not considered within the current risk registers and this was considered to be a key control weakness.

3.3 The response matrix noted that a workshop will be held for all members of the Senior Management Team to consider the impact of the identified risks, and identify the financial and non-financial factors. This has been arranged for Monday 7 June 2010.

3.4 Recommendation 1 assessed as Merits Attention reads: a Risk Management Strategy has not been documented. We recommend that Derby Homes develop a Risk Management Strategy and ensure that it is made available to it's Board, Committees and to staff throughout the organisation. The draft strategy is Appendix 1 of this report.

3.5 The Risk Management Framework indicates how we will measure and monitor delivery of the strategy. The framework is Appendix 2 of this report.

3.6 Recommendation 2 assessed as Merits Attention reads: a formal Risk Management Policy had not been documented. We recommend that Derby Homes develop a Risk Management Policy, which is Board approved and that the policy is readily available to staff. The draft policy is Appendix 3 of this report.

3.7 The further three recommendations have been incorporated into the draft policy and strategy. The response matrix to the audit report required action dates from Derby Homes as to when the recommendations would be implemented. The action date is 30 June 2010.

3.8 Performance Management Committee considered the draft documents on 17 May 2010 and recommended approval to the Board.

4. FINANCIAL AND BUSINESS PLAN IMPLICATIONS

To not implement the recommendations may have a direct impact on the management fee received by Derby Homes from Derby City Council.

5. RISK IMPLICATIONS

Failure to address the recommendations could result in the responsible members being uninformed when making decisions.

6. POLICY REVIEW IMPLICATIONS

This is a key policy of Derby Homes and will be included in the Key Policy Review Schedule. In accordance with minute 10/51 this policy will be reviewed no later than 3 years from the date of this meeting.

The areas listed below have no implications directly arising from this report

- Consultation
- Legal and Confidentiality
- Personnel
- Environmental
- Equalities Impact Assessment
- Health & Safety

If Board members or others would like to discuss this report ahead of the meeting please contact the author, or the Chief Executive, phil.davies@derbyhomes.org - Tel 01332 711010

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Background Information: None

Supporting Information: None

Risk Management Strategy

Derby Homes

2010/2011

Contents

1. Risk Management Statement

Risk can be defined as:
'the combination of the probability of an event and its consequences. Events and consequences can constitute opportunities for benefits or threats to success' (**IRM Risk Management Standard**).
In other words, the chance of something happening that will affect Derby Homes' ability to achieve its mission, aims and service improvement actions.

Risk Management is the process in which risks and opportunities are identified, evaluated and controlled and can be summarised as:
'*the process which aims to help organisations understand, evaluate and take action on all their risks with a view to increasing the probability of their success and reducing the likelihood of failure'* (**The Institute of Risk Management**).

2. Introduction

Derby Homes has a successful track record of managing risk as an integral part of its governance and management systems. This strategy explains the organisation's approach to risk management and its plans to develop and embed this further through a comprehensive and consistent risk management structure.

There are an almost infinite number of risks which might occur and many different headings under which to group them, but most can be categorised under the following headings:

- Strategic risks – e.g. changes in government policy, competition for new business opportunities, partnership working.
- Reputation risks - e.g. poor service delivery.
- Compliance risk - e.g. Health and Safety, Audit Commission Inspection, performance management.
- Financial risk - e.g. failure to achieve the management fee and inadequate financial management, fraud, poor value for money.
- Operational risk - e.g. failure to recruit to key positions, fraud, failure to meet promises and targets, service delivery.
- Physical risks - e.g. natural disaster, fires, loss of IT connections.
- Personal risks - e.g. work place stress, safety of frontline staff, directors' liability.

This risk management strategy recognises that:

- overall responsibility for risk management lies with the Board and it's Committees.
- implementation of the risk management strategy is delegated to the Chief Executive.
- the management of risk is a continuous process involving regular monitoring and where necessary re-tuning.

3. Aims

Derby Homes' risk management strategy aims to:

- integrate risk management into the culture of Derby Homes
- manage risk in accordance with best practice
- anticipate and respond to social, environmental and legislative requirements
- prevent injury, damage and losses and reduce the cost of risk
- raise awareness of the need for risk management by all those connected with the delivery of service
- consider compliance with Health & Safety, insurance and legal requirements
- take action to minimise the likelihood of risks occurring and / or reduce the severity of consequences if risks occur.

These aims will be achieved by:

- establish clear roles, responsibilities and reporting lines for risk management
- reinforce the importance of risk management as part of the everyday work of employees
- incorporate risk management considerations into service planning
- monitoring and reviewing arrangements on an ongoing basis as part of the performance management processes
- participating with other bodies including Derby Homes' insurers in the development and sharing the risk management best practice
- including risk management issues when writing reports and considering decisions
- maintaining a register of risks linked to Derby Homes' business and operational objectives, also those risks linked to working in partnership
- maintaining documented procedures of the control of risk and provision of suitable information, training and supervision
- maintaining an appropriate system for recording Health & Safety incidents and identifying preventative measures against recurrence
- preparing contingency plans to secure business continuity where there is a potential for an event to have a major impact on the ability to function
- monitor arrangements continually and seek continuous improvement.

4. Our Approach

Derby Homes seeks to embed risk management into its processes, values and culture.

By adopting this Derby Homes can:

- have increased confidence about achieving its mission and values.
- increase confidence of stakeholders in our governance and ability to deliver
- constrain threats to acceptable levels
- take informed decisions about exploiting opportunities

It is important that we encourage innovation and calculated risk but are not cavalier or reckless.
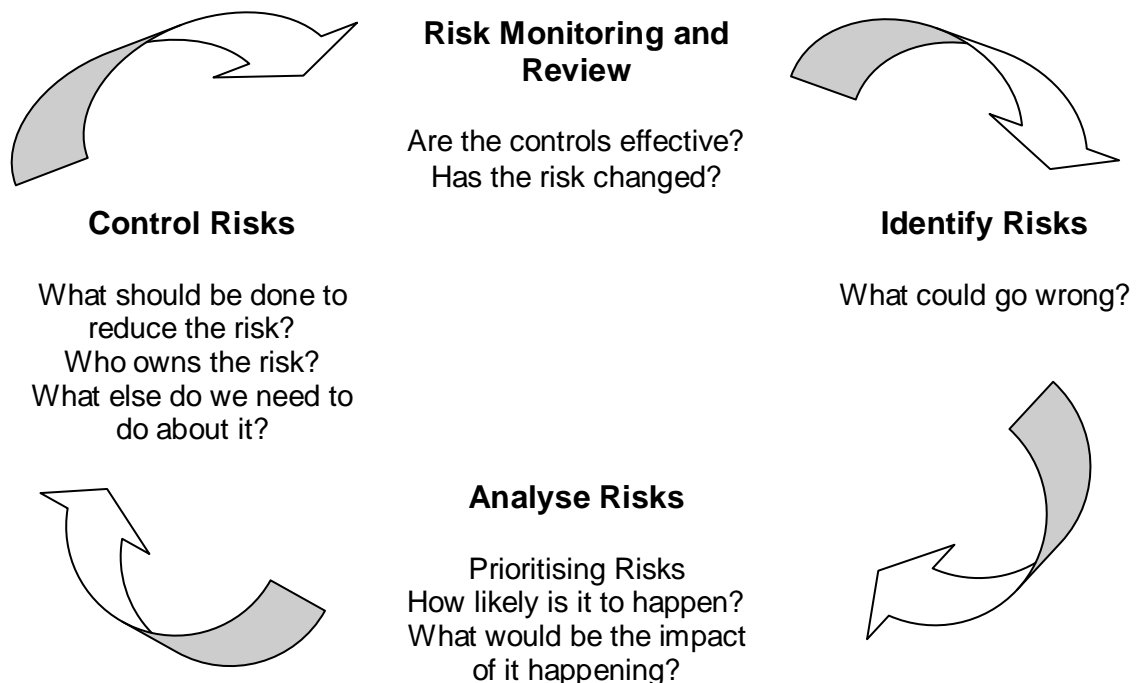
5. Risk Control

Risk Management is not always straightforward and we recognise the need for managers to have a sound understanding of the subject in order to embed our principle of risk management into working practices.

All staff need to have an understanding of risk identification and management at a level appropriate to their work. This will ensure a uniform approach to identifying and prioritising risk:

6. Process

Derby Homes is committed to establishing a systematic and consistent approach to risk identification, analysis, control, monitoring and review.

Risk Monitoring and Review

Are the controls effective?
Has the risk changed?

Control Risks

What should be done to reduce the risk?
Who owns the risk?
What else do we need to do about it?

Identify Risks

What could go wrong?

Analyse Risks

Prioritising Risks
How likely is it to happen?
What would be the impact of it happening?

Risk can be any event which may affect Derby Homes' ability to meet its strategic objectives or cause it to incur unexpected losses. Such events may affect the organisations financial strength, positive public image and the overall quality of its people and services. They may even affect its ability to survive.

Risk management contributes to informed decision making and will be an integral part of planning and decision making process. The adoption of this strategy will lead to greater awareness and improved control environment, ensuring that the impact and consequences of decisions, initiatives and projects are considered and conflicts are balanced.

Further details of the proposed methodology are shown within the Performance Management Framework.

7. Establishing responsibilities

Responsibility for risk management rests ultimately with the governing body or Board of the organisation. Within Derby Homes the Board have delegated responsibility for overseeing the effective management of risk to the Performance Management Committee, who in turn have assigned the Chief Executive with responsibility for day to day management of risk to the organisation.

All staff should understand they are responsible for the management of risk in their area.

All staff effectively manage the risks, both positive and negative, associated with their activities using the comprehensive risk management framework. This identifies and manages risks through the following processes:

- Identify, monitor & report, assess and address risks
- Compliance with legal and regulatory requirements;
- A timely response to changing social and environmental requirements;
- Protection against fraud and poor stewardship of public money;
- Prevention of injury, damage and loss to stakeholders and employees and their property;
- Recognition that taking controlled risks is fundamental to innovation and developing a 'can do' culture;
- Clear understanding of our risk appetite
- Appreciation of the significance of high levels of risk and effective procedures in place to deal with it.

8. Delivering our Services

In delivering the best possible service to customers we will consider customer impact in risk assessment and we will seek the most beneficial outcome for customers in addressing risks.

To ensure that the diversity of the local community is reflected in the services we deliver we will seek to minimise the risks of excluding any groups or individuals from accessing our services, receiving high quality customer service or participating in the development and monitoring of services.

We will consider sustainability by ensuring that risks to sustainability are identified and that actions taken to address all risks are considered in relation to their potential impact on sustainability.

In pursuing opportunities for value for money we will seek to provide a framework that provides the most effective outcomes for the resources required to implement it. We will seek to identify the most cost effective methods for addressing identified risks.

9. Issues to Consider

The issues which may impact on the embedding of risk management are:

Changes in policy and legislation (e.g. health & safety) that impacts on our approach to risk management;

By its nature effective risk management involves the assessment of potential external issues that may impact on an organisation. As such there should be fewer unidentified issues to consider.

10. Expected Impact

We expect, through the successful implementation of this strategy, to have the following impact:

Customers will benefit from the reduced risk of a loss of service and a reduced impact when a risk event occurs. A willingness of the organisation to take controlled risks will result in more innovative services.

Derby Homes will be better placed to manage risks and to effectively deal with risk events occurring (e.g. loss of service). Staff will be more innovative as a result of the organisation encouraging controlled risk taking.

Risk can be any event which may affect Derby Homes' ability to meet its strategic objectives or cause it to incur unexpected losses. Such events may affect the organisations financial strength, positive public image and the overall quality of its people and services. They may even affect its ability to survive.

Risk management contributes to informed decision making and will be an integral part of planning and decision making process. The adoption of this strategy will lead to greater awareness and improved control environment, ensuring that the impact and consequences of decisions, initiatives and projects are considered and conflicts are balanced.

11. Roles & Responsibilities

Board of Derby Homes	- Direct Executive and SMT to ensure that risk is embedded throughout Derby Homes - Approve and adopt the Risk Management Policy and Strategy - Receive progress reports quarterly from Performance Management Committee - Actively consider the risk management implications contained within all reports - Gain an understanding of risk management and its benefits which includes attending relevant training.

Performance Committee	• Approve the risk management arrangements annually and through quarterly monitoring review changes and progress on risk management action plans • Request information on matters relating to risk management • Be consulted on forthcoming decisions and the development of policy • Annually scrutinise the Risk Registers to ensure that it is compliant with the Risk Management Strategy.
Chief Executive	• Overall responsibility for risk management throughout Derby Homes.
Executive Management Team	• Executive Directors have overall responsibility for embedding risk management throughout Derby Homes • Approve and adopt a Risk Management Policy and Strategy • Contribute towards the identification and management of strategic and cross cutting risks and opportunities facing Derby Homes • Receive and consider reports on key strategic issues • Promote integration of risk management principles into the culture of Derby Homes • Sign off Operational Risk Registers • Maintain an understanding of risk management and its benefits which includes attending relevant training • Establish training requirements of mangers in relation to all aspects of risk management where relevant • Strategic and high scoring risks are monitored at the Executive Management Team meetings and decisions on escalated risk are fed down. Risks added to the Risk Register are also monitored by Performance Committee.
Heads of Service	• Identify, analyse and profile operational risks • Provide assurance on the effectiveness of controls in place to mitigate/reduce risks within their service • Maintain awareness of and promote the approved risk management policy and strategy to all relevant staff • Ensure risk management is a regular item on team meeting agendas

	• Operational risks are monitored at Heads of Service Meetings and reported on quarterly to the Performance Management Committee.
Service Managers	• Raise awareness, manage and implement the risk management process effectively in their service areas. • Ensure risk management is a regular item on team meeting agendas • Maintain awareness of and promote the approved risk management policy and strategy to all relevant staff • Ensure that risk management is incorporated into service plans.
Audit Committee	• Provide an annual scrutiny of the Risk Management Process and the Risk Register.
All Employees	• All staff have a duty to be aware of and consider risks involved in their day to day activities and to report any changes to these risks through the line management of the organisation • Liaise with their line manager to assess areas of risk in their role within Derby Homes.

12. Risk Register

The risk registers document risks as part of the risk management process and are continually reviewed to ensure that new risks are identified, and that the management of existing risks are progressed.

The registers include:

- A description of the risk
- Existing controls
- Actions required
- Responsibility for action
- Review and target end dates
- Progress made to date

The risk register will be used as the basis for regular monitoring by Executive, Heads of Service and teams within Derby Homes.

This risk register will be reviewed in conjunction with the Delivery & Business Plan to ensure mitigation actions are being processed.

An annual review of the risk register and any potential changes to the strategy will be carried out by the Performance Management Committee.

Approved by:	
Effective date:	
Review date:	
Policy developed by:	Performance Team
Associated Documents:	

The Risk Management Strategy will be reviewed annually and the next review is due in April 2011.

Risk Management Framework

Derby Homes

2010/2011

1.   Identify

1.1   The identification of risks is a key part of the risk strategy.   By involving various levels of staff, management, Board Members, and residents in the risk identification process, Derby Homes hopes to establish a framework which raises the profile of risk management throughout the organisation and will incorporate the following elements:

- Driven by senior management and the Board
- Involve all stakeholders in the organisation
- Be fully embedded in the activities of the business
- Be logical and consistently applied across the organisation
- Take nothing for granted
- Result in quantifiable outcomes if the risk is financial
- Be a dynamic process that continuously improves.

1.2   Risks can be identified from a number of sources, some are of greater concern at a strategic level and some at an operational level, however, all levels of management should be concerned, to varying degrees, with the majority of categories.

Risk can be identified from a number of different sources:

- Internal sources:

  o Incidence reporting within the office environment and relating to estate based activities
  o Investigation of major service delivery failure
  o Complaints, staff absence reporting
  o Audits (internal and external)
  o Tenants and leaseholders satisfaction surveys
  o Hazard/safety notices
  o Whistleblowing
  o Assurance framework

- External sources

  o Media
  o National reports
  o New legislation
  o Benchmarking organisations
  o Systems user groups
  o Reports from assessments / inspections (i.e. Audit Commission)

1.3 Risks can be identified through scanning the internal and external environment, such as

External

- Social
- Technological
- Economic
- Environmental
- Political
- Values

Internal

- Customer/service user
- Managerial/professional
- Financial
- Legal
- Partnership/contractual
- Physical

1.4 Once the risks have been identified, they will then be categorised under the following headings:

- Strategic – those which could impact across the organisations arising from major events thereby influencing our strategic progress and direction
- Operational – those associated with the successful completion of the outcomes in service plans and are assessed by Heads of Service in conjunction with Service Managers through the service planning process.

1.5 Each risk is allocated a lead officer who will be responsible for and lead on the management of that risk.

2. Assess

2.1 Having identified the risks, it is then necessary to assess their likelihood of the risk occurring and potential impact that might result, thereby producing the overall risk rating. These scores are to provide a useful basis for identifying vulnerabilities or opportunities, and ensuring that any necessary actions are addressed. By developing a standard methodology to scoring risks, those which require the greatest levels of management will be identified.

2.2 The assessment is carried out against a five-point scale which scores the likelihood of occurrence and the severity of impact. The risk is given a score of one to five for both likelihood and impact (one being least likely or lowest impact) and plotted onto a risk map. A traffic light system will code the risk as red (high), amber (medium) or green (low). The likelihood score is then multiplied by the impact score to rate the overall risk score. Scoring is done without any reference to any actions that may be put in place to manage the risks and are categorised as follows:

Likelihood		**Impact**	
1	Very High	1	Catastrophic
2	High	2	Critical
3	Significant	3	Significant
4	Low	4	Marginal
5	Very Low	5	Negligible

IMPACT

LIKELIHOOD	5	4	3	2	1
5	green	amber	amber	red	red
4	green	green	amber	red	red
3	green	green	amber	amber	red
2	green	green	green	green	amber
1	green	green	green	green	green

3.   Control

3.1   Risk Tolerance

3.1   Risk Tolerance is defined as *'the amount of risk an organisation is prepared to tolerate before action is required'*.

Addressing the risks ensures that they do not develop into an issue, where the potential threat is realised. The following approaches can be taken to address identified risks:

Terminate: a decision is made not to undertake the activity that is likely to trigger the risk. Where the risks outweigh the possible benefits, terminate the risk by doing things differently and thereby removing the risk.

Transfer – share the exposure, either totally or partially, with a partner or contractor, or through insurance. Any partnerships need to be carefully monitored as it may not be possible to transfer all risks and certain aspects may remain, such as loss of reputation.

Treat – the most common approach is to introduce preventative actions to reduce the probability or impact if the risk occurs and maximise the potential for success.

Tolerate – the ability of an effective action against some risks may be limited or the cost of taking such action may be disproportionate to the potential benefits gained.

Take the opportunity – this is not an alternative to the above but is an option that should be considered when transferring, treating or tolerating a risk.

3.2 **Risk Appetite**

Level of Risk	Level of Concern	Recommended Review Action	Approach Option(s) available
High	Very Concerned	1 – 2 months	Terminate Transfer Treat
Medium	Tolerate	3 – 6 months	Terminate Transfer Treat Tolerate
Low	Content	7 - 12 months	Tolerate (Treat, if cost effective)

3.3 The scale and speed of any action will be related to the risk score. The expected responses are as follows:

High – risks will have a catastrophic effect on the operation of Derby Homes. They usually occur infrequently and can be extremely difficult to predict. For risks identified as high Derby Homes will act to minimise the risk within 2 months. Managers and SMT have the responsibility to bring these risks to the attention of the Chief Executive.

Medium – risks will have a noticeable effect on service provision. Each one will cause a degree of disruption to service provision, reputation of the ALMO or impinge on its financial status (i.e. systems failure). Derby Homes will take steps to minimise the risks within 6 months. Managers must bring these risks to the attention of the Senior Management Team who have the authority to address these risks

Low – risks where the consequences will not be severe and any associated losses will be small. Derby Homes will take reasonable and proportionate steps to minimise or eliminate the risk within twelve months. Managers and frontline staff are authorised to act to address or minimise these risks.

4. Monitoring and Review

4.1 Few risks remain static. New risks are likely to emerge and existing risks may change. It is essential therefore that they are continuously monitored. Risk management is a dynamic process – new risks will be identified, some will be terminated and control measures will need to be updated in response to changing internal and external events. The assessment of probability and impact will also need to be reviewed.

4.2 Monitoring and regular reviews ensures:

- Progress is being made towards controlling risks
- Controls are effective
- Knowledge of changes to the risks through circumstances or business priorities.

4.3 The following information provides guidance on the questions that should be taken into account when undertaking the monitoring and review process.

- Are the risks still relevant?
- Has anything occurred that could impact on them?
- Are performance indicators appropriate?
- Are the controls in place effective?
- Have the risk scores changed, and if so are they increasing or decreasing?
- If risk scores are increasing, what further actions/controls might be needed?
- If risk scores are decreasing, can controls be relaxed?

4.4 The monitoring and review process should be integrated into existing business processes so that it adds value and supports the attainment of objectives and is not just seen as a 'bolt on'. Where objectives are not achieved or are not on course to be achieved, the cause should be investigated in order to update and improve the risk management process.

4.5 Risks will be reviewed with the following regularity:

Strategic – Quarterly by Executive and the Performance Management Committee

Operational – Quarterly by Heads of Service and the Performance Management Committee

4.6 The consolidated risk report and related management plans will be reviewed annually by Heads of Service and Executive and presented for approval to the Performance Management Committee. Quarterly updates will be presented to Performance Management Committee.

4.7 The Board of Derby Homes will receive quarterly highlight reports.

4.8 The risk management reports will be presented to the Executive, Board and the Audit Committee on an annual basis.

Approved by:	
Effective date:	
Review date:	
Policy developed by:	Performance Team
Associated Documents:	

The Risk Management Framework will be reviewed annually and the next review is due in April 2011.

RISK MANAGEMENT POLICY

1. INTRODUCTION

1.1 The purpose of this policy is to set out Derby Homes' approach to risk management. Our commitment is to manage the risks associated with our business activities and minimise the impact of unwanted and unexpected events.

1.2 Taking and managing appropriate levels of risk is an integral part of all our business activities. Risk management, performed rigorously and comprehensively, underpins good governance, contributes to the continued viability of Derby Homes, and is a key element of organisational management.

2. DEFINITION OF RISK

2.1 Risk is the threat that an event or action will adversely affect Derby Homes' ability to meet its business objectives and execute its strategies successfully.

2.2 Risk Management is the process by which Derby Homes establishes a procedure aimed at minimising the impact of risks on the continuance of its business.

2.3 Risk Assessment is the systematic process of identifying and analysing risks.

3. STATEMENT OF INTENT

3.1 The Board of Derby Homes shall manage the affairs of, and risks faced by, Derby Homes, ensuring adequate and appropriate systems of control and exercising proper stewardship of public funds.

3.2 Derby Homes is committed to implementing appropriate strategies and processes that identify, analyse and manage the risks associated with our activities as a means of minimising the impact of unwanted or unexpected events on our business activities. We will:

- identify business objectives that reflect the interests of all our stakeholders through our Delivery & Business Plan
- identify the threats to the achievement of these business objectives
- control and manage our exposure to all forms of risk and reduce it as far as reasonably practicable or achievable
- apply robust risk management processes as part of our wider management processes
- educate and train our Board Members, managers and colleagues in risk management
- regularly review the risks we face as a result of our business activities and of the business and economic climate we operate in
- identify cost effective risk treatment options

- identify and regularly measure key risk indicators and take appropriate action to reduce our risk exposure
- regularly review our key risk controls to ensure that they remain relevant, robust and effective.

4. RISK FRAMEWORK

4.1 Derby Homes has a robust risk management framework that covers all its activities. All staff and Board Members should be familiar with the framework. The framework comprises:

(i) The overall control environment/culture.

(ii) Controls and activities designed to manage and minimise risks and errors.

(iii) Monitoring controls to ensure the controls are working as intended and effectively, so that (ii) is achieved.

4.2 Risk assessment and internal control is embedded in ongoing operations and reported in the statutory accounts.

4.3 Individual risk appraisals will be undertaken and reported to the Board/Performance Management Committee for all proposed new activities, or development.

4.4 The annual internal audit plan of work takes into account the risks identified in the risk registers.

5. ANNUAL RISK ASSESSMENT

5.1 Performance Management Committee will report to the Board quarterly highlight reports and an annual report is presented to Audit Committee. The annual risk assessment process is closely linked to the annual business planning/strategic objective setting process.

5.2 As part of its annual risk appraisal Derby Homes will prepare strategic and operational risk registers identifying:

(i) All the key risks likely to be encountered – strategic, financial, operational and compliance;

(ii) Prioritisation of the risks according to the impact on Derby Homes and the probability of it happening;

(iii) Controls or activities that manage, prevent or mitigate the risk;

(iv) Monitoring processes that ensure that the controls are operating as expected and effectively;

(v) Responsibilities for the controls and monitoring processes;

(vi) Agreed actions to address any weaknesses in controls or monitoring processes.

6. RESPONSIBILITY AND MONITORING

6.1 The Board has ultimate responsibility for ensuring that risk management works effectively and that implementation of the Risk Management Policy is monitored.

6.2 The Performance Committee is delegated by Board to ensure that, operationally, the framework on risk management is working and that from a practical perspective the controls that have been put in place mitigate the inherent risk identified.

6.3 The Chief Executive will be responsible for effective implementation of this policy.

6.4 The ongoing review of risks will be the responsibility of the Senior Management Team. Individual managers are responsible for identifying risk and control measures in their specific areas.

6.5 All managers have the responsibility to read, understand and implement this policy.

7. WHISTLEBLOWING

7.1 Derby Homes is committed to the highest possible standards of openness, probity and accountability. The Whistleblowing Code is intended to help employees who have concerns over any potential wrong doing within the organisation. In line with that commitment, we expect employees, and others that we deal with, who have serious concerns about any aspect of Derby Homes work to come forward and voice those concerns. It is recognised that most cases will have to proceed on a confidential basis.

8. REVIEW

8.1 The risk registers will be reviewed and amended annually by the Performance Committee to reflect changes in risks and controls.

8.2 The Performance Committee will receive regular reports on any new risks, or changes in the perceived priority of risks during the year.

Approved by:	
Effective date:	
Review date:	
Policy developed by:	Performance Team
Associated Documents:	