



# SHG RISK MANAGEMENT STRATEGY

## 2020-25

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# 1 INTRODUCTION

- 1.1 Stockport Homes Group (SHG) is the largest provider and developer of affordable homes within the Borough of Stockport. Its mission is to 'Transform Lives'. It is a growing company that has an entrepreneurial flair as well as being a strongly values-based organisation, dedicated to meeting housing need, tackling social and financial exclusion and bringing investment into Stockport.
- 1.2 SHG manages the Council's 11,500 homes and delivers related services to a wide demographic, including homeless people, older people and those with disabilities. It has developed, or is in the process of developing, around 1,050 additional homes for rent or shared ownership, and has diversified to repair and maintain over 50 schools and retirement schemes. To grow, deliver more services, and be more financially efficient, a group structure was adopted in 2016
- 1.3 This Risk Management Strategy sets out how SHG will manage risks that have the potential to impact on the achievement of corporate objectives. The Strategy outlines how SHG will identify, assess, manage and monitor risks and opportunities and establish accountability through designating specific role and responsibilities. The Strategy ensures that the company's future is secure and that new business opportunities are able to be maximised, whilst ensuring that public funds and social housing assets (owned and managed) are not put at unnecessary risk.
- 1.4 By having a Strategy that considers risks related to new business opportunities, SHG is demonstrating that decisions to diversify and grow into new areas are taken with full awareness of potential risks to which the company could be exposed.
- 1.5 The Strategy outlines how the expectations of the Regulator of Social Housing (RSH) Regulatory Framework, and in particular the requirements of the Governance and Financial Viability Standard, are met.

# 2 DEFINITIONS

- 2.1 This section outlines the definitions<sup>1</sup> that SHG adopts in relation to risk and risk management. Risks are an opportunity which brings rewards / benefits and as such is something the company wishes to actively pursue in order to grow and evolve. In addition, there are downside risks with potentially negative outcomes which need to be managed.
- 2.2 **Risk** can be defined as "the effect of uncertainty on objectives. Risk is usually expressed in terms of causes, potential events, and their consequences".
- 2.3 **Risk Management** can be defined as "the co-ordinated activities designed and operated to manage risk and exercise internal control within an organisation".

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<sup>1</sup> HM Government, The Orange Book: Management of Risk – Principles and Concepts

- 2.4 **Risk Appetite** can be defined as the “the nature and extent of risks that the organisation is willing to take”.

### 3 RISK MANAGEMENT AT SHG

- 3.1 SHG has an established and mature Risk Management Framework in place. This has evolved and developed over the last few years, as the company has moved to operate as a group structure, working in new markets and being an innovative sector leader in many areas.
- 3.2 SHG Board has ultimate responsibility for setting the strategic direction of the business and ensuring there is an appropriate Risk Management Framework in place. The Risk Management Framework is designed in line with recognised best practice but has been developed to meet the specific needs of SHG: an ALMO operating in a group structure (with a charitable subsidiary) that has diversified its work into private markets. The Risk Management Framework is not rigid and continually evolves as the company does.
- 3.3 As part of business planning exercises and assessment of new business opportunities, SHG ensures it has a full understanding of what benefits are available to be exploited for wider community benefit and what adverse outcomes could be faced. SHG is able to evaluate potential downsides and put in place appropriate actions to minimise risk exposure as far as practically possible, as well as being able to unlock new opportunities successfully.
- 3.4 Effective risk management requires leadership and commitment from the top of the organisation, which is evident at SHG. Risk management is integrated and embedded within the operations of the company (within all services and activities) and not viewed as a separate exercise. It is the responsibility of all colleagues to ensure effective risk management takes place and that internal systems of control are adhered to.
- 3.5 The articulation of a risk appetite forms part of the overall Risk Management Framework for SHG. The Board sets and reviews this regularly and is embedded within decision-making across the company. This ensures there is a clear view of what type of risks SHG is comfortable taking, when actions should be taken to reduce / mitigate risks and when an activity may need to be terminated because the risk has become too great.
- 3.6 In March 2020, SHG Board approved an updated Risk Appetite Statement<sup>2</sup> for the company (including the subsidiaries). Further work will be undertaken to embed this further into governance structures and decision making which will further strengthen the Risk Management Framework at SHG. This approach embraces the Regulatory expectation that a registered provider’s Board has articulated a risk appetite and ensures it is an integral part of the business-planning framework.

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<sup>2</sup> This will be periodically reviewed and updated during the life of this five year strategy

## 4 IMPORTANCE OF EFFECTIVE RISK MANAGEMENT

- 4.1 Effective risk management requires leadership and commitment from the top of the organisation and the framework must be agile in nature, and able to flex to everchanging internal and external environments faced. SHG continually appraises its operating environment and is horizon scanning for upcoming changes on a regular basis. This enables a proactivity in assessing potential issues that could be forthcoming.
- 4.2 Risk management is an integral part of the development of SHG's strategic direction to ensure that agreed corporate objectives can be achieved. It plays a key part in the governance and decision-making processes within SHG to ensure that risk considerations form part of all major decisions taken.
- 4.3 This Risk Management Strategy outlines the principles, framework and processes that SHG adopts in order to ensure effective and integrated risk management activities.

## 5 THE REQUIREMENTS OF THE REGULATOR OF SOCIAL HOUSING (RSH)

- 5.1 The Regulator of Social Housing (RSH) oversees registered providers of social housing to ensure and promote a viable, efficient and well-governed social housing sector that is able to deliver homes that meet a range of needs. The Regulatory Standards set out specific expectations and the outcomes that providers are expected to achieve, across a range of areas<sup>3</sup>. SHG aspires to work collaboratively and closely with RSH and to ensure a strong working relationship is developed as SHG moves closer to more detailed regulatory oversight.
- 5.2 The Governance and Financial Viability Standard<sup>4</sup> and Code of Practice outline RSH's requirements in relation to risk management, business planning and internal control frameworks. Particular attention has been paid to these requirements in developing this Risk Management Strategy for SHG.
- 5.3 The Standard requires that "registered providers shall ensure that they have an appropriate, robust and prudent business planning, risk and control framework"<sup>5</sup>. The Code of Practice, which accompanies the Standard, states that "registered providers should have a clear understanding of their risk tolerances and ensure that they are appropriate to the scale and nature of the activities they are undertaking"<sup>6</sup>.
- 5.4 SHG's Risk Management Framework has been developed to go beyond the Regulator's requirements. From 2023, it is expected that Stockport Homes will

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<sup>3</sup> The Standards are divided into Economic Standards (which are actively regulated) and then a set of Consumer Standards (for which the 'serious detriment' test currently applies).

<sup>4</sup> Which forms part of the suite of Economic Standards

<sup>5</sup> [2015 Governance and Financial Viability Standard \(RSH\)](#)

<sup>6</sup> [2015 Governance and Financial Viability Code of Practice \(RSH\)](#)

become a Large Provider (as the ALMO will own over 1,000 units in its own right) and be subject to more stringent regulation, including the need for an In-Depth Assessment (IDA) to take place. This will provide a Regulatory Judgement on SHG's governance arrangements and financial viability. The management of risk is an inherent part of both of those judgements.

## 6 A RISK AWARE AND MATURE CULTURE

### Culture

- 6.1 Across the company, everybody has a part to play in managing risk successfully and they are all aware of their specific roles and responsibilities. A risk aware culture enables SHG to minimise losses and maximise opportunities as the structures by which risk is successfully managed are part of the day-to-day functions and service delivery and not seen to be a separate activity.
- 6.2 A truly embedded approach to risk management will see the following in place<sup>7</sup>:
- Leadership
  - Involvement by all employees
  - Learning culture
  - Attitude towards blame or accountability
  - Communication up, down and across the organisation
- 6.3 SHG has these component parts in place and the ASPIRE values reflect these five cultural requirements. There is visible leadership and a strong commitment to colleague communication, engagement and empowerment. Learning and development opportunities and pathways exist for all and there is a willingness to learn from mistakes and grow from them.
- 6.4 In order to further strengthen the risk culture within SHG, the Risk Management Framework ensures that there will be effective communication and consultation with all key stakeholders to ensure they receive timely and relevant information and that opportunities to participate in discussions about the risks and shape decisions about risk management are made available to relevant stakeholders. This is evidenced at SHG through regular reporting, discussions at away days and the involvement of key stakeholders in developing this strategy and subsequent risk registers.

### Maturity

- 6.5 Risk maturity models can be used to assess where a company's attitude to risk management is at, and how it can become more mature. They consider culture, people, processes and how risk management is applied in practice. A recognised approach<sup>8</sup> includes the following stages:

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<sup>7</sup> Standards for Managing Risk by the Chartered Institute of Internal Auditors (2019)

<sup>8</sup> Fundamentals of Risk Management (Hopkin), 2010

- Naïve – Lack of awareness of risk management and insufficient attempt to prepare for threats / uncertainties. The value of structured approaches to dealing with uncertainty are not valued.
  - Novice – Aware of need for risk management but risk processes have not been implemented effectively and the full benefits are not being gained. Risk management processes have fundamental weaknesses.
  - Normalised – Management of risk built into routine business processes and is implemented throughout the business. The benefit of risk management is understood at all levels although may not be consistently achieved.
  - Natural – There is a risk aware culture with a proactive approach to risk management in all activities. The consideration of risk is inherent to routine processes. Risk information is actively used and communicated to improve processes and gain competitive advantage.
- 6.6 SHG considers itself to have a 'natural' risk maturity. By having risk processes and capabilities that have become 'business as usual', SHG is able to derive greater value and stronger assurance, from there being a more sophisticated approach to risk management.

## 7 ROLES AND RESPONSIBILITIES

- 7.1 The **Board** sets the Risk Management Framework which is required to ensure risks are identified, assessed, managed and monitored appropriately in order to ensure no adverse effects to the achievement of corporate objectives and the minimisation of potential losses. They will understand the risk capacity of the company and then agree an appropriate risk appetite for the company. The Board have oversight of the risk landscape for the entire group and ensure the agreed risk appetite is considered when making decisions. They understand the risks (and combinations of risks) SHG faces. The RSH Governance and Financial Viability Code of Practice states that "the responsibility for managing risks, and specifically risks to social housing assets, lies with boards".
- 7.2 The **Audit and Risk Committee (ARC)** ensures there is effective oversight of risk management across the group of companies. They seek assurance that the systems for managing risk are operating effectively. They scrutinise and challenge risk information and reports as well as receiving internal audit reports, which assess the quality of internal controls. They will consider how combination of risks could impact the operations of the organisation and how risks within different group companies interrelate.
- 7.3 The **Subsidiary Boards** are responsible for ensuring risks within the subsidiary are identified and properly managed in order to enable that company to achieve their aims and objectives. They will have regard to strategic, group wide risks when making decisions and escalate anything up to SHG Board which could have a significant impact on the entire group of companies.

- 7.4 The **Senior Leadership Team** (SLT) are responsible and accountable for the day to day, operational delivery of the Risk Management Framework. They will ensure appropriate resources are in place and that roles and responsibilities within the company have been identified to ensure risks continue to be well managed. SLT are responsible for ensuring effective management of risk within the agreed appetite, delivery of control actions and regular reporting to ensure Board have appropriate oversight. SLT will demonstrate a strong and continual commitment to risk management and ensure it is integrated within all operations of the company.
- 7.5 The **Wider Leadership Team** (WLT) are collectively responsible for implementing risk control actions, ensuring internal controls operate as intended and to identify and control emerging risks / threats which could undermine the company's ability to achieve its objectives. They will ensure that systems and process operate correctly, that policies and procedures are in place as needed and that business plans and strategies take account of risk issues.
- 7.6 **Directorate Management Teams** (DMT)<sup>9</sup> are responsible for identifying risks within their service areas and highlighting any emerging risks. They will participate in bi-annual Risk Workshops which will be used to identify and assess risks as per the Risk Management Framework and discuss any emerging threats / issues which may need escalating to WLT.
- 7.7 The **Head of Assurance** is responsible for embedding the Risk Management Framework within SHG and for delivery of the Risk Management Strategy and work related to the collation and management of the Risk Registers. The Head of Assurance will ensure that timely and accurate risk reporting takes place to key stakeholders and will identify best practice to further strengthen SHG's approach. They will escalate any issues which pose a direct threat to SHG, and are not being appropriately managed, directly to the Senior Leadership Team.
- 7.8 **Managers** within SHG are responsible for ensuring appropriate policies and procedures exist within their services and that colleagues are adequately trained to follow these in order that internal controls are delivered as planned. Managers will escalate any emerging risks to their Head of Service / Assistant Director for consideration.
- 7.9 All **colleagues** employed by SHG are required to follow agreed working practices and approved policies. This is to ensure that controls operate as intended and that risks are managed as services are delivered to customers. Colleagues must escalate any risk issues to their manager.

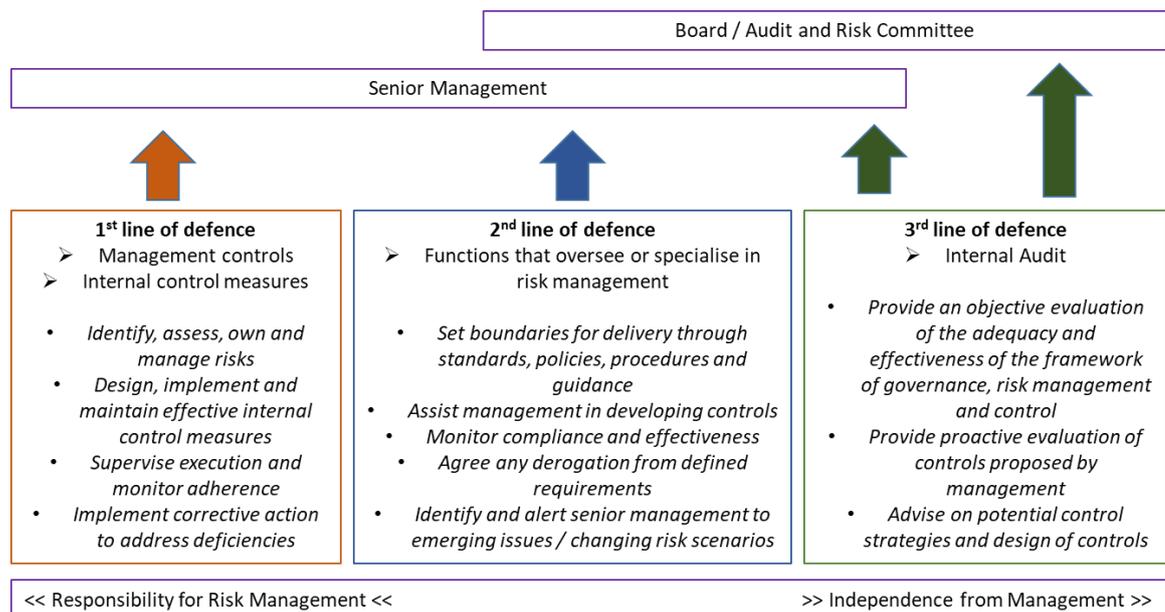
## 8 THREE LINES OF DEFENCE MODEL

- 8.1 A well-regarded approach to depicting roles and responsibilities with the risk management process is the Three Lines of Defence model. This approach sets out what the responsibility of each "line" is and how that relates to oversight of

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<sup>9</sup> SHG utilises existing DMT meetings / structures in lieu of creating a separate Risk Working Group

risk. SHG adopts this process in practice but more work will be undertaken to formalise this approach.



- 8.2 SHG's Managers own and manage the controls that form the 'first line of defence'. In practice, this means that they will regularly review policies and procedures, analyse performance information, ensure system controls operate as intended (and undertake spot checks as needed) and use management information to gain assurance over controls and processes.
- 8.3 At SHG, the 'second line of defence' is removed from the front-line operations and provides an element of independence and objectivity. There are a number of ways in which this happens in practice, include the role of the Assurance Team, corporate reporting process, for example in relation to performance information, budgetary management and risk control and oversight by Heads of Service and SLT.
- 8.4 The 'third line of defence' is independent of SHG and predominantly focusses on the role of Internal Audit. This is an independent assessment of the design and effectiveness of processes and controls and is delivered via a risk-based internal audit plan each year. In addition to internal audit, there are other independent sources of assurance that SHG makes use of including the work of External Audit and independent specialist reports in key areas, for example in relation to customer safety.
- 8.5 This approach will form an integral part of the Assurance Mapping process<sup>10</sup>.

<sup>10</sup> See Section 10.23 for further information

## 9 STRATEGIC OBJECTIVES & OUTCOMES

- 9.1 For SHG's Risk Management Framework to continue to evolve and meet the agile needs of the business, strategic objectives have been formulated in order to guide the future direction of the framework.

### Strategic Objectives 2020-25

#### ***Objective One: Ensure SHG's approach to risk management exceeds the Regulator's requirements and expectations and other sector best practice***

- 9.2 A Risk Management Framework must fully meet the needs of the Regulator, however, SHG's framework goes beyond these requirements as it reflects wider best practice both in the housing sector and the risk industry<sup>11</sup>. In developing this Strategy, benchmarking has been undertaken with other housing providers, both through local connections with other organisations and through more formal arrangements such as PWC's Housing Forum. This has evidenced that SHG has a robust and strong approach to risk management in place.
- 9.3 There are a number of different sources of best practice that exist and whilst SHG are aware of those, the company must adapt its approaches and methodologies to suit the specific needs of SHG.
- 9.4 A key component of the Regulator's requirements is to undertake stress testing and this is something SHG has in place and reports to SHG Board. This must demonstrate an awareness of what could break the Business Plan and how SHG can mitigate this successfully.
- 9.5 A new action to be delivered in the life of this Strategy is to undertake "deep dives" into key risk areas. This will give WLT and Board Members a more detailed understanding of this risks, actions and assurance that can be obtained from specific areas of the business.

#### Outcomes

- 9.6 By delivering this strategic objective, SHG will achieve a positive outcome in an In-Depth Assessment (IDA) by the Regulator as it can demonstrate the regulatory requirements in relation to risk management are being delivered. In addition, SHG will set standards of good practice for the sector.
- 9.7 The leaders of the business will gain a greater understanding of how key risk areas are being managed in practice through the "deep dive" process, which will add to their assurance and confidence in risk management.
- 9.8 SHG will ensure that assets are safeguard from loss and that social housing assets are not put at risk.

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<sup>11</sup> For example, by taking into account best practice from the Institute of Risk Management (IRM) and the ISO standards guidance

***Objective Two: Continue to ensure the Risk Management Framework remains fit for purpose as SHG grows and evolves***

- 9.9 SHG has a sound system by which risks are identified, assessed, managed and monitored by relevant stakeholders.
- 9.10 Currently, Directorate Management Teams participate in an annual risk workshop to identify and discuss risks related to delivery of objectives and business plans. This will be extended to incorporate a mid-year risk workshop to discuss how the financial year is evolving and how risks and risk scores may be affected as service delivery is underway. This will be an opportunity to collectively discuss emerging risks / threats.
- 9.11 As SHG diversifies and grows, through winning new work and delivering new services, the Risk Management Framework will continue to evolve. This links with the new business development function and it will be necessary to ensure that risk management is integral to bids and tenders made, ensuring the Head of Assurance has an awareness of where external work is being explored / won.
- 9.12 A new aspect to SHG's Risk Management Framework will be the introduction of assurance mapping into the business. This will create a dashboard style report which will give SLT and Board Members a summarised oversight of levels of assurance across key risk areas. This will be developed in line with the 'three lines of defence' model and identify where there is sufficient, or possibly too little, assurance in certain key risk areas.
- 9.13 Following implementation of assurance mapping, the format of SHG's risk reports will be reviewed. This will be to ensure that Board Members receive the correct level of detail, take into account the digital manner in which reports are received and read and ensure that there is not 'information overload' and Board's focus is on the right information.

**Outcomes**

- 9.14 Delivery of this strategic objective will ensure that SHG's strong Risk Management Framework is maintained and enhanced and that as the business grows and evolves, the approach to risk management does too.
- 9.15 The introduction of assurance mapping and a review of the format of risk reporting will ensure that the "monitoring" aspect of the overall process is being undertaken effectively and with the right information being seen by the right people at the right time.

***Objective Three: Further embed the use of Risk Appetite / capacity to take risks within decision making and oversight functions***

- 9.16 In March 2020, SHG Board approved an updated Risk Appetite Statement. This covers each company within the group structure. Work is required to ensure that the agreed risk appetite becomes more embedded within the company and is a more integrated part of decision making.

- 9.17 Wider work will take place within SHG to ensure report authors are considering risk issues when writing reports and that this evaluation is captured within the reports being presented to Board. This will ensure Board are fully aware of risk considerations but also depict the link to risk appetite in terms of the impact of decisions being sought. Report authors will be coached in this area to ensure risk appetite is successfully embedded into the business and governance processes.
- 9.18 Work will take place to further consider risk accumulation and identify dependent risks. This will mean consideration being given to not only the likelihood / impact of a risk arising, but also the consequential impacts on other risks. For example, if the risk relating sales of new build properties materialises, that event it could increase the likelihood of the risk relating to cash flow management materialising as well – thus creating a ‘knock on’ effect. By having a better understanding of consequential impacts, the risk management function is being further strengthened and there is greater oversight of risk tolerance / capacity as combinations of risks occurring at the same time is being considered and managed.

### Outcomes

- 9.19 Delivering actions for this strategic objective will take SHG’s Risk Appetite Statement from being a standalone document to be a more embedded part of not only the Risk Management Framework but also the governance, decision making and business planning processes within SHG.
- 9.20 The additional work around risk accumulation and consequential impact will ensure the company remains aware of where combinations of risks could arise and what mitigation strategies are needed for this. This will feed into the stress testing process too.

### **Objective Four: Further develop a risk aware culture within all levels of SHG**

- 9.21 SHG has a well-established risk culture whereby the management of risk is embedded into existing operations / activities and not viewed as a separate entity. Risk management is everyone’s responsibility at SHG.
- 9.22 As the framework evolves and SHG grows and diversifies, consideration needs to be given to what training / coaching / awareness raising needs to take place across the business to ensure everyone is aware of how risk is managed within SHG. This will be of particular importance as SHG moves into more commercial areas of the company where it may be necessary to deliver some form of risk training / coaching within business areas to maintain the positive risk culture that exists.
- 9.23 A key part of ensuring a risk aware culture at SHG will be to embed the work relating to the ‘three lines of defence’. This will create greater awareness of people’s roles and responsibilities in terms of risk management and delivery of internal controls. It is an opportunity to remind colleagues of the key risk management principles upon which SHG operates and how they contribute to the success of this.

- 9.24 The final aspect of ensuring a strong risk culture is to obtain an independent assessment, via the internal auditors, of SHG's risk maturity and whether there are any improvement actions that can be delivered to further strengthen the culture.

#### Outcomes

- 9.25 As noted at the outset of this Strategy, people play a huge part in successful risk management and by being aware of the risk culture that exists, and taking actions to maintain it and strengthen it, SHG is ensuring its Risk Management Framework operates as it is intended to: to manage risk successfully, take opportunities that will create a positive return for the company, protect SHG from loss and ensure delivery of corporate objectives and services to customers.

## **10 CONCLUSION**

- 10.1 SHG has a well embedded approach to managing risks and opportunities as well as a sound system of internal control.
- 10.2 The Board sets out the Risk Management Framework and the risk appetite and there are clearly defined roles and responsibilities in place. In addition, there is a risk management process which is integrated into all business operations. This has enabled SHG to successfully unlock a wide range of new business opportunities, manage risks which could impact the achievement of corporate objectives and deal with unexpected events.
- 10.3 This Risk Management Strategy will build upon this solid foundation and the actions identified in this Strategy will ensure the governance and strategic management of risk and opportunity continue to be successfully implemented and that appropriate assurance is provided to key stakeholders in a timely manner.

## **11 ACTION PLAN**

- 11.1 An action plan has been developed and this will be monitored on a regular basis. It is provided as an Appendix.

## **12 EQUALITY IMPACT ASSESSMENT (EIA)**

- 12.1 Consideration has been given to the impact of this Strategy on equalities and inclusivity. The Risk Management Strategy sets the framework for the delivery of risk within the company. An aspect of that is to develop and oversee Risk Registers. While there has been no negative equality impacts identified as part of the Strategy development, within the 2020-21 Corporate Risk Register, there are four risks which are deemed to have outcomes that link to Equality and Diversity. These are:

- Delivery of a new build programme – it is essential to ensure a variety of properties are built to meet differing needs of the community, including accessible homes

- Managing the impact of Covid 19 – there are equality and diversity considerations which must be taken into consideration when dealing with Covid 19, for example, how to deliver services to a customer that is medically shielding
- Recruitment and retention of colleagues – a review of BAME recruitment has been undertaken and further actions are planned to ensure recruitment and retention practices are inclusive to all
- Board diversity – consideration must be given to future Board recruitment and how to ensure this is an inclusive process. The ability to participate in Board meetings via video conference may assist in ensuring SHG Board is an attractive proposition for a wide range of customers, particularly those with disabilities who may find travel to the Head Office to attend meetings to be a barrier

## **13 LINKS TO OTHER PLANS / POLICIES**

13.1 This Strategy links with the following policies / documents:

- SHG Business Plan
- HRA Business Plan
- Delivery Plan
- Service Improvement Plan
- Risk Registers
- Risk Appetite Statement
- Internal Audit Plan
- Insurance Policies
- Governance Scheme of Delegation
- Governance Improvement Plan
- NHF Code of Governance Self-Assessment
- Corporate Finance Strategy
- Financial Regulations
- Financial Scheme of Delegation
- Stress Testing
- Regulation Self- Assessment
- Assets and Liabilities Register

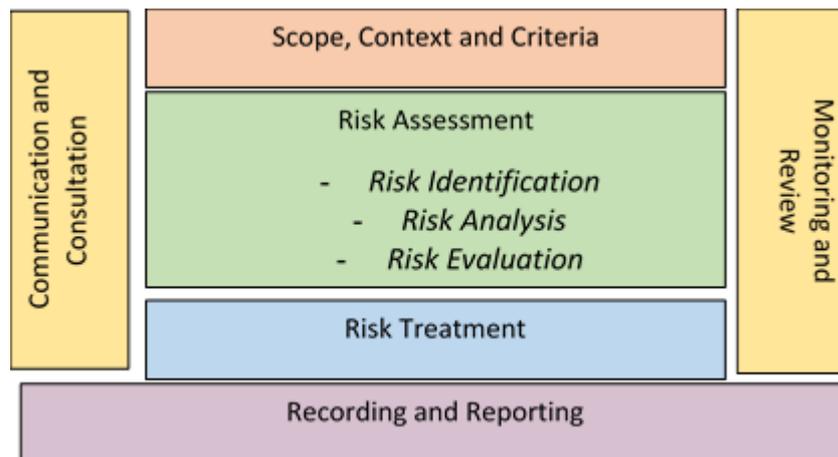
## **14 OWNERSHIP, MONITORING & REVIEW**

14.1 This Strategy is owned by the Assurance Team. It will be monitored on an ongoing basis and reviewed every five years, or sooner if there is a need to undertake a review before 2025.

## APPENDIX ONE – SHG’S RISK MANAGEMENT PROCESS

### 15 SHG’S RISK MANAGEMENT PROCESS

15.1 In order for risk management to be successful within SHG, there is a structured approach in place to identify, assess, evaluate, manage and monitor risks. At SHG, this is achieved by having the following Risk Management Framework in place. The diagram below outlines how this works in practice<sup>12</sup>:



15.2 The component parts of this process work together to ensure there is an embedded approach to risk management within SHG and sets out those particular stages that need to be followed to ensure full consideration has been given to risks and opportunities as part of delivery of services and Business Plans.

#### Identifying Risks

15.3 There are many ways in which SHG identifies those key risks that have the potential to inhibit the achievement of corporate objectives and undermine the success of the company or areas of new opportunity that the company is seeking to pursue. These include:

- A Wider Leadership Team (WLT) away day held every Autumn, to coincide with business planning and budget planning for the upcoming financial year
- Consultation with and input from Board Members via Board Meetings and Board Away Days
- Discussions with Stockport Council via liaison meetings
- Review of the RSH’s Sector Risk Profile Report to ensure all risks identified by the Regulator are considered by SHG in full (where applicable)
- Risk workshops held with Directorate Management Team meetings, one in late Autumn to discuss and identify risks and another in Summer to evaluate the risk registers in place and consider any emerging risks

<sup>12</sup> This is based on the ISO 31000 : 2018 – Risk Management risk management process

- Insight and feedback from the Internal Auditor is considered, for example from their North West Housing Forums and their own annual Sector Risk Profile Report.
- Horizon scanning and keeping abreast of developments within the sector and the wider economy / political arena to ensure SHG remains alert to future changes taking place and adapting services as needed.

15.4 Once risks have been identified, they are collated into a Risk Register which is then further developed to capture all relevant information about that risk for oversight and reporting purposes. Each risk is assigned a risk owner at this stage, who will be a member of SLT.

15.5 There are Risk Registers in place for SHG, Three Sixty, Viaduct, Foundations and for the HRA. In addition, at a project level, managers can create local Risk Registers as needed.

### **Assessing and Evaluating Risks**

15.6 Once risks have been identified, it is necessary to assess them to determine what level of risk they present to SHG, and whether that is within the agreed risk appetite, or not. This process of risk assessment will inform future management of the risks.

15.7 SHG utilises a risk scoring matrix, which has been personalised for each of the companies within the group based on current turnover levels (for the financial scoring aspect). This is a 4 x 4 matrix. The risk scoring matrices are appended to the annual Risk Registers they relate to and are reviewed every two years to ensure they remain fit for purpose.

<b>Rating</b>	<b>Impact</b>	<b>Likelihood</b>
1	Minor	Very Unlikely
2	Moderate	Unlikely
3	Serious	Likely
4	Critical	Very Likely

15.8 By using a risk scoring matrix, SHG is following a consistent approach to consideration of the likelihood of each risk materialising and then the scale of the impact it could have on the company if it did arise. There are a range of financial and non-financial parameters which are used in this assessment (depending on the nature of the risk).

15.9 The initial set of risk scoring focuses on the current risk rating to be awarded, as things stand at that time. The score given for likelihood is multiplied with the score given for impact, giving a total score of between 1 and 16. The risks are then rated red, amber and green depending on the current risk rating given. Controls and actions to further manage the risk are then identified and agreed and then a residual risk rating is determined (assuming that all actions are delivered as intended). This process gives the leaders of the organisation information about which risk control actions are of more importance in terms of bringing down a score and managing a risk, and those areas where little additional work can be delivered to further control the risk beyond its current risk rating.

Impact	4	8	12	16
	3	6	9	12
	2	4	6	8
	1	2	3	4
	Likelihood			

- 15.10 Consideration will be given to the potential for combinations of risks to arise at the same time, or the sequential occurrence of risks<sup>13</sup> and mitigation approaches will take this into account in terms of the design of controls and additional actions. Management reporting will identify when such scenarios are materialising.
- 15.11 When assessing risks, SHG will do this in line with the agreed risk appetite. This will identify which risks are within the risk appetite, and which are not, and influence how risks are managed. Where a risk is deemed to be outside of the agreed risk appetite, additional mitigation measures will be required to reduce the exposure.
- 15.12 Stress testing is an integral part of SHG's Risk Management Framework as it allows a thorough assessment of the risks which SHG faces and how they could impact on the delivery of the Business Plan. By testing different scenarios and combinations of scenarios, WLT and Board Members are able to gain a detailed understanding of what could break the Business Plan and where risk tolerances lie. This is then used to inform decision making and the development of mitigation plans to deal with potential situations which the business could face.
- 15.13 Stress testing is also a useful tool for SHG to utilise when unexpected events occur<sup>14</sup>, to enable immediate modelling of potential outcomes to be developed to inform the organisation's response to the event. It is essential that Board Members and senior leaders of the company are familiar with the most recent stress testing work and that this is reported to Board on a frequent basis for scrutiny and oversight.

### Managing and Treating Risks

- 15.14 Once risks have been identified and assessed, the next stage is to understand how that risk is best managed by SHG. This evaluation will take into account what type of risk could arise, the likelihood and impact scoring, the existing measures in place and the resources / options available to further manage that risk.

<sup>13</sup> For example, when one risk occurs, it is then highly likely that another risk will follow on from that

<sup>14</sup> For example, the 1% rent cut and the occurrence of the Covid 19 pandemic

15.15 The 5 T's model is utilised within SHG to understand the different approaches that could be taken to manage the risk in the most efficient and effective way. This model includes five options:

- **Take** the opportunity (to achieve the benefit / positive outcome)
- **Tolerate** the risk (do nothing and accept the potential risk)
- **Treat** the risk (apply additional actions to further manage the risk)
- **Transfer** the risk (via a contract to a third party or take out insurance)
- **Terminate** the activity (which then eliminates the risk)

15.16 The management response will determine future action to be taken by SHG. Some control actions will have the effect of reducing the likelihood of a downside risk occurring<sup>15</sup>, some actions will work to lessen the impact<sup>16</sup> should the risk arise and some actions will positively impact both. The actions must have the effect of reducing the residual risk rating to an acceptable level. If not, further actions must be identified and implemented until the risk rating becomes acceptable.

15.17 In line with SHG's culture of continuous improvement and active approach to risk management, additional risk control actions will also be considered to further reduce the potential impact a risk could have on the business. This means that in practice, SHG will "treat" as many risks as reasonably possible in order to ensure effective management.

15.18 All actions identified will be assigned an action owner and a deadline, and the delivery of those actions will be monitored on a quarterly basis and form part of the risk reporting cycle.

### **Monitoring and Oversight of Risks**

15.19 Annually, each Risk Register is approved by SHG Board<sup>17</sup> prior to the start of each financial year. Each quarter, the risks and the control actions within those Risk Registers are monitored and reviewed and reports are provided to the Subsidiary Boards (as applicable), the Audit and Risk Committee and then an overall risk update is provided to SHG Board via the CEO Report. These reports provide Board Members with assurance that the controls in place to manage key risks are operating as intended and having the expected impact on the management of risk.

15.20 As part of the delivery of this Strategy, across the year, a number of key strategic risks will be selected and will be subject to a "deep dive". This will be a process whereby the risk will be scrutinised in more detail, with a more thorough review of existing and proposed controls in order to understand the robustness of the risk management in that area in more detail. The findings from "deep dive" reviews will

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<sup>15</sup> For example, by training all colleagues in cyber security, the organisation is reducing the likelihood of an incident occurring

<sup>16</sup> For example, by borrowing at fixed interest rates, the organisation is not negatively affected by an increase in interest rates

<sup>17</sup> If the risk register relates to a Subsidiary Company, the Subsidiary Board will be involved in that approval process

be reported via the quarterly reporting process and will provide Audit and Risk Committee with more detailed assurance over key risks.

- 15.21 Following the mid-year Risk Workshops with Directorate Management Teams, a further report is presented to WLT and to SHG Board to provide an update on any sector changes, key trends and emerging risks.
- 15.22 The reporting process in place enables oversight of delivery of risk control actions across SHG and provides assurance that the risks are being well managed and are within risk tolerances / appetite. Risk reports should be used to inform decision making across the wider SHG business as Board and senior leaders will have an awareness of how effectively risks are being managed.
- 15.23 Another aspect to monitoring risk is to implement assurance mapping into the business. This will provide senior leaders and Board Members with assurance around each risk by giving them an overview of the three lines of defence (see below) for each risk and provide a 'dashboard' style report outlining sources of assurance with a rating of how well managed each risk is. An assurance map brings together, at a high level, key pieces of management information into one document to aid decision making and oversight functions.