Risk Management Methodology Policy

Date approved by Management Committee:	September 2023
Latest review date:	September 2026

Risk management methodology

1. Introduction

1.1 This document outlines the Association's approach to identifying, measuring and managing risk.

1.2 The Association has a well-established risk management culture that takes account of regulatory and best practice requirements, such as sections 3.2, 3.3, 3.5 and 4.3 of the Standards of Governance and Financial Management. This document builds on our previous work in this area and seeks to make further improvements.

1.3 This document has been considered by the staff team and Committee prior to being adopted.

2. Policy aims and objectives

2.1 The purpose of this policy is to establish a framework for the Association to assess, monitor, and determine mitigating actions for risks, as well as provide assurance to the Management Committee and other external stakeholders.

2.2 It is important to distinguish between the risk management methodology and the risk matrix. This policy outlines the methodology which addresses how we will assess and manage risks and is revised by the Management Committee every three years (or more frequently if required); the risk matrix, on the other hand, is revised by staff and Committee more frequently, and the mitigating actions reviewed at each quarterly Assurance sub-Committee. The risk matrix will also be reviewed at least at six-month intervals and contains details of the actual risks facing the Association and how these are to be managed.

3. Legislative and regulatory framework

3.1 This policy has been developed within a framework that ensures proper compliance with legislation, regulatory advice and good practice.

3.2 The main regulatory standards that apply to this policy are contained within the Scottish Housing Regulator's Standards of Governance and Financial Management. The main applicable provisions are:

- Standard 3.2

  The governing body fully understands the implications of the treasury management strategy it adopts, ensures this is in the best interests of the RSL and that it understands the associated risks.

- Standard 3.3

  The RSL has a robust business planning and control framework and effective systems to monitor and accurately report delivery of its plans. Risks to the delivery of financial plans are identified and managed effectively. The RSL considers sufficiently the financial implications of risks to the delivery of plans.

- Standard 3.5

  The RSL monitors, reports on and complies with any covenants it has agreed with funders. The governing body assesses the risks of these not being complied with and takes appropriate action to mitigate and manage them.

- Standard 4.5

  The governing body identifies risks that might prevent it from achieving the RSL's purpose and has effective strategies and systems for risk management and mitigation, internal control and audit.

4. Risk Management

4.1 The Association has considered the risks of failing to adhere to the policy when managing risks. Failure to appropriately assess risks could lead to a diverse range of adverse impacts, but ultimately could lead to catastrophic business failure and/or health and safety risks. This policy, and the wider risk management processes, must therefore be followed at all times.

5. Equality and human rights

5.1 The Association's Equality and Human Rights policy, which was approved by the Committee in April 2021, outlines our commitment to promote a zero tolerance to unfair treatment or discrimination to any person or group of persons, particularly on the basis of any of the protected characteristics[1]. This includes ensuring that everyone has equal access to information and services, and, to this end, the Association will make available a copy of this document in a range of alternative formats including large print, translated into another language or by data transferred to voice.

5.2 We are also aware of the potential for policies to inadvertently discriminate against an individual or group of individuals. To help tackle this and ensure that it does not occur, best practice suggests that organisations carry out Equality Impact Assessments to help identify any part of a policy that may be discriminatory so that this can be addressed (please see section 6 of the Equality and Human Rights policy for more information).

5.3 In line with section 6 of the Equality and Human Rights Policy, the Association carried out an Equality Impact Assessment on this policy and no remedial action was identified as necessary. The full assessment is appended at the end of this policy.

6. Responsibility and delegated authority

6.1 The Association's approach to risk management has an impact on all members of the staff and Management Committee team and therefore some responsibilities lie with everyone.

6.2 The Management Team have responsibility for implementing this policy on a day to day basis as delegated by the Director. The Director is responsible for ensuring that the undernoted tasks are appropriate addressed, but the Corporate Services and Assurance Manager will undertake them on an operational basis:

- Ensuring updates to the risk matrix are carried out timeously
- Ensuring the Management Committee are appraised appropriately of key and emerging risks
- Ensuring the risk mitigation actions are carried out in a reasonable timescale
- Reporting to the Assurance sub-Committee on progress in relation to mitigation actions, particularly where there is slippage in achieving these

[1] The Equality Act 2010 identifies the "protected characteristics" as age, disability, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex, gender reassignment and sexual orientation.

- Review of this policy

6.4 The Director retains overall responsibility for the implementation of this policy.

7. Principles of risk management

7.1 There is risk attached to all aspects of operating a business. The task for the Association is not therefore to eradicate all risks but, rather, to ensure that:

- We are aware of what risks may face the Association
- We are clear on the Association's appetite for risk
- We categorise risks appropriately
- We take action to reduce either the likelihood of them happening and/or the impact on the Association if they do
- We monitor the progress and success of any mitigating or control action(s)
- Where applicable, we transfer risk via, for example, insurance policies

7.2 The Association has a duty of care to its tenants, employees and other stakeholders. It is also responsible for safeguarding the assets of the Association. It will assist in meeting this duty by ensuring that risk management plays an integral part in the management of the Association at both a strategic and an operational level.

7.3 As noted above, the existence of some risk is inevitable and will never be eliminated. All staff and Committee must understand the nature of risk and accept responsibility for risks associated with their area of authority, with the necessary support and assistance from their staff and Committee colleagues.

7.4 Notwithstanding the above, it is also important to operate within a framework that does not lend itself to a disproportionate and overly risk-averse culture to the extent that it deters decision-making and causes a time-consuming administrative process. Risk management is about a sensible assessment of the risks that we face, with efforts focussed on ensuring that the key risks are managed effectively and that any new risks are assessed. Ultimately, it is about a balanced approach.

8. Aims and objectives of risk management

8.1 There are two principal aims of risk management at Cernach:

(i) to ensure that the Association is not exposed to any risks that, if not controlled, could cause harm or injury to our customers or anyone connected to the Association.
(ii) to ensure that the Association is not exposed to any risks that, if not controlled, could threaten our ongoing viability

8.2 We will achieve this by implementing the following objectives:

a) Identify the key risks facing the Association
b) Set out how the key risks are to be managed
c) Have a system of highlighting new or changing risks
d) Ensure that risk awareness and management remain embedded in the Association's culture
e) Have a system to highlight, monitor and assess risk mitigation actions

8.3 The remaining sections explain how each of the above objectives is to be achieved.

9. Identifying the key risks

9.1 Cernach assigns all risks with a ranking to help identify those that present the greatest threat to the Association. This is a number resulting from the product of the following two factors:

a) The likelihood of an event occurring and
b) The impact that it would have on the Association if it did occur

The risk ranking is therefore likelihood x impact

9.2 Likelihood is measured on a scale of 1 to 5 where:

- 1 = the likelihood of it materialising is **impossible or negligible**
- 2 = the likelihood of it materialising is **low**
- 3 = the likelihood of it materialising is **possible**
- 4 = the likelihood of it materialising is **high**
- 5 = the likelihood of it materialising is **very high or certain**

9.3 Impact is measured on a scale of 1 to 5 where the effect on the Association if the event did happen would be:

- 1 = **negligible or non-existent**

- 2 = **marginal**
- 3 = **moderate**
- 4 = **critical**
- 5 = **catastrophic**

9.4 All risks identified will therefore be ranked between 1 and 25 – i.e., the minimum is 1 x 1 = 1 and the maximum is 5 x 5 = 25. This can also simply be multiplied by four and be expressed as a percentage score of risk.

9.5 Risks ranked 16 and above will be considered “severe” risks. Risks ranked 12 to 16 will be considered “high” risks and those between 8 and 12 will be “medium” risks. These will be known as the key risks.

9.6 The Management Committee and staff team shall focus on the monitoring of risks which are seen to have the greatest impact on the business. Further detail of the risk descriptors are highlighted at **Appendix 1.**

10. Categories of risk

10.1 The Association will ensure that all of its risks are categorised. The risk categories are intended to provide a means of grouping related risks within the risk matrix, as risks are commonly not entirely independent from each other. This also has the aim of facilitating a structured approach to the overall risk management activities and enhancing risk reporting processes.

10.2 The main risk categories are:

- **External** – arising from the external environment, not wholly within the Association’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.
- **Change** – risks created by decisions to pursue new endeavours beyond current capacity.

Examples of categories include:

- **External** – The cost of living crisis, Brexit
- **Operational** – Poor financial management resulting in funding issues, insufficient staff resource to carry out key pieces of work
- **Change** – Development programmes, pilot programs

11. Risk appetite

11.1 The aim of the risk management methodology is not to remove but to recognise that some level of risk will always exist. It is recognised that taking risks in a controlled manner is fundamental to innovation and the building of a can do culture which is fundamental to the continued success of the Association.

11.2 Risk appetite is the amount of risk that the Association is prepared to accept, tolerate or be exposed to at any point in time. Risk appetite can be expressed as a boundary, above which the organisation will not tolerate the level of risk and further actions must be taken.

11.3 For example, a risk which is both highly likely to occur, and has a high impact score, and therefore categorised as a severe risk, is likely one that the Association would not tolerate and would seek to either remove or wholly transfer.

11.4 The Association's risk appetite is not necessarily static. The Management Committee may vary the amount of risk which it is prepared to take depending on the circumstances surrounding the specific risk area.

11.5 The current risk appetite the Management Committee adopts is generally one of being risk averse. The Association is prepared to adopt risk in order to fulfil the aims and objectives of the business plan, for example risks associated with trialling new approaches and ways of working, falling under the 'Change' category as outlined in section 10.2. However, the Management Committee has a history of implementing controls to minimise impacts of new processes, particularly financial controls, in order to fully analyse and consider impact of decisions prior to full implementation.

12. Risk owners

12.1 Risk assessment is not an exact science – it is subjective based on individual interpretation. In order to obtain as accurate and meaningful a picture as possible, all staff and Committee will be involved in the annual risk assessment process. This approach will also have the benefit of helping ensure ownership of the risk matrix.

12.2 The annual review takes place in November[2] of each year with the mid-year review in May. The following critical stages in the review process apply:

Item	By whom?	Timescale
Review of current risk rankings, consideration of new/emerging risks and review of control measures	Management Team	End September/ Beginning October Meeting #1
Evaluation of risk rankings, consideration of new/emerging risks and review of control measures	Senior staff (individually)	2nd/3rd week in October
Discussion on review of current risk matrix	Staff team (organised through Management Team)	3rd/4th week in October Meeting #2
Revisions agreed at meeting #2 incorporated into risk matrix	Management Team	1st week in November
Draft risk matrix to be distributed with Committee papers	Director/(CSAM)	3rd week in November
Agreement of revised risk matrix	Management Committee	November/December meeting
Final matrix to be distributed to all staff and discussed at staff meeting as part of Management Committee feedback	Director/(CSAM)	Wednesday following Committee meeting
Control actions in relation to key risks to be reported to the Assurance sub-Committee quarterly. Any concerns to be remitted to the Management Committee.	Assurance sub-Committee	At quarterly scheduled meeting
Mid-year review to be carried out	Management Team	Beginning May
Mid-year review papers to be distributed to Management Committee	Director/(CSAM)	With May Committee papers

[2] Where there is no November meeting, this will be considered at the December meeting.

12.3 All risks have an assigned risk owner. This is the person with overall responsibility to the Management Committee in relation to the particular risk. This risk owner will normally be a member of the management team.

12.4 Where there are concerns about a particular risk area and/or our ability to contain it, then this will be advised to the Management Committee outwith the normal reporting cycle; in exceptional circumstances, a special Management Committee meeting can be called. To reinforce this principle, risk shall appear as a standing item at each meeting of the Management Committee.

12.5 Day-to-day risk management will be progressed in the normal course of events by the risk owner. Control actions will be contained in operational work plans, action plans, policies/procedures, etc.

13. Managing and mitigating risks

13.1 The purpose of measuring risk is to determine the level of response required to ensure that actions taken are proportionate to the level and material value of the risk. Further, the ranking system that we use allows us to prioritise so that the Association can more effectively manage and co-ordinate its risk management activities.

13.2 The Association will categorise actions taken to manage and mitigate risks as follows:

TOLERATE:	The exposure may be tolerable without any further action being taken. Even if it is not tolerable, the ability to do anything about some risks may be limited, or the cost of taking such action may be disproportional to the potential benefit gained.
TREAT:	By far the greatest number of risks will be addressed in this way. The purpose of treatment is that whilst continuing with the activity giving rise to 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.
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. It essentially gives consideration to completely rethinking a particular activity in order to generate a more favourable outcome.

13.3 Once the appropriate mitigating action has been categorised, consideration will be given to the specifics of carrying out each action. For example, a potential treatment for a risk of adverse financial impact of welfare reform upon income generation would be to employ a welfare benefits specialist. In this scenario, employing the staff member would be the treatment action.

14. Tracking risks

14.1 New or changing risks are outlined in the annual review carried out in November, using a system of colour coding for ease of reference. All risks are managed on an ongoing basis by staff and reported to/approved by the Committee every six months. There is a standing item on each Management Committee meeting agenda for risk, currently reported within the governance report. New or changing risks will also be reported to the Assurance sub-Committee on a quarterly basis, together with details on how control or mitigating actions are being taken.

14.2 The sub-Committee's quarterly reporting cycle provides an additional layer of scrutiny by the governing body and helps ensure that risk owners are accountable for the control actions taken. The increased focus on risk management also helps ensure that we are better able to anticipate and respond to changing social, environmental, legislative and political requirements

14.3 Risks identified, their scores, mitigating actions, risk owners and revised scoring following mitigation actions will be stored on the Association's workplan system, Monday.com. This can also be converted into an excel document for ease of use for all staff and for the Management Committee. This should be kept as a live document, but will be revised and included in the papers for each Assurance sub-Committee meeting at a minimum.

15. Embedding risk awareness and management in the Association's culture

15.1 Risk management is more effective when all staff and Committee have ownership of the risk matrix and are clear on how their role contributes to ensuring that the Association is not unduly exposed to risk, especially when this risk can be/should have been anticipated.

15.2 It is therefore Cernach's policy to ensure that everyone is aware of risk management within the organisation and that they have a critical part to play.

15.3 We achieve this by:

- Providing appropriate training
- Involving representation from the staff team in the review process; this includes raking risks and identifying control actions
- A standing item on each Management Committee agenda
- Detailed reporting six-monthly to the Management Committee
- Quarterly monitoring by the sub-Committee
- Feedback on risk management at staff meetings as appropriate (for example, following sub-Committee or Management Committee meetings)
- Including a section on risk management in key policy statements and all Committee reports
- Seeking feedback from staff and Committee on the risk management methodology

15.4 In addition, staff are encouraged to consider the risk implications of any activity in which they are engaged and, if relevant, to feed any required changes/actions back to the management team.

16. Policy review

16.1 This policy will be reviewed every three years or earlier if required by legislative, regulatory or good practice requirements. The next scheduled review is due to take place in September 2026.

Risk management methodology

Approved – 14 September 2023

Risk management methodology

Appendix 1

Description	*Financial Impact*	*Health & Safety*	*Asset Loss*	*Business Interruption*	*Reputation and Image*	*Corporate Objectives/ Performance*
Negligible or non-existant	***0.5% of either a Capital or Revenue budget.***	***No or only minor personal injury. First Aid needed, but no days lost.***	***Little or no impact on assets.***	***Interruption negligible; less than ½ day. Critical systems unavailable for less than an hour.***	***Minor article in local media or website (story unsubstantiated).***	***Workaround required, within Cernach resources.***
Marginal	***2.5% of only either a Capital or Revenue budget.***	***Minor injury, medical treatment and some days lost.***	***Minor loss or damage to assets.***	***Interruption inconvenient; ½ - 1 day lost. Critical systems unavailable for several hours.***	***Headline article in local media or housing press (Substantiated story).***	***Additional resources requiring Senior Team authorisation or delay in achieving part of an objective.***
Moderate	***5% of either a Capital or Revenue budget.***	***Serious medical treatment, hospitalisation and numerous days lost.***	***Major damage to assets.***	***Interruption 1 day to 1 week. Client dissatisfaction; Critical systems unavailable for up to 1 day.***	***Headline article in media (story substantiated and publicly embarrassing).***	***Major compromise in objectives. Variation in achievement of key objectives.***
Critical	***10% of only either a Capital or Revenue budget.***	***Extensive injuries or long term illness.***	***Significant loss of assets.***	***1 week to 1 month. Critical systems unavailable for 1 day or a series of prolonged outages.***	***Short term campaign against Association (story substantiated, publicly embarrassing with third party actions.***	***Elements of objectives abandoned and fail to meet needs of a tenants and housing requirements.***
Catastrophic	***20% of either a Capital or Revenue budget.***	***Fatalities or severe permanent disabilities.***	***Complete loss of assets.***	***Interruption more than 1 month. Critical systems unavailable for more than a day (at a crucial time).***	***Prolonged media campaign against the Association. Story substantiated, publicly embarrassed with third party action and widespread news profile.***	***Unable to deliver organisational objectives. Widespread failure to meet housing and tenant needs.***