Group Risk Management Policy (for all HFL companies)

Introduction

HFL Group takes a pro-active approach to identifying and managing risk as required under its Code of Governance, based on (HFL Homes) or adapted from (HFL Group, Build and Living) the NHF Code of Governance. It is not always possible to eliminate risk; rather, HFL Group aims to identify, manage and minimise risks that may impede the organisation from achieving its objectives. Each company in the HFL group is primarily focussed on identifying and managing risks to its direct business but each company works in the context of the wider HFL group of companies and is alive to the potential impact of risks crystallising elsewhere in the group.

HFL Group has aligned its view of risk with Lambeth Council's view of risk (Single View of Risk) to support the Council's own oversight and scrutiny of the HFL programme which is classified as a strategic risk by the Council. This Single View of Risk will be subject to review at the Joint Approvals Board on a monthly basis and quarterly review at the Council's Management Board.

Taking account of good business practice and regulatory expectations for HFL Homes, priorities of risk management at HFL Group will include:

- Managing commercial risks that could arise and ensuring appropriate insurances are in place where available and representing value for money;
- Managing development risk including procuring construction contracts that are value for money and actively managing exposure to changes in house values and rents;
- Insulating HFL Homes from development risk elsewhere in the group and facilitate the protection of social housing assets and services;
- Ensuring our financial viability (both cashflow and longer-term profitability)
- Ensuring excellent governance across the HFL group;
- Safeguarding the reputation of all companies in the HFL group and its relationship with key stakeholders

Following on from this, mechanisms to ensure effective risk management will include:

- Board ownership and oversight of risk management
- Promoting a culture of risk awareness and compliance within HFL
- Clear officer ownership, timetabling and performance management of risk mitigation activities
- Creation and maintenance of an appropriate control and assurance framework
- Creation and maintenance of robust records relating to assets and liabilities
- Board regularly refreshing its understanding of:
    - Its risk appetite and exposure to risks
    - Its operating environment (both short and longer term)
    - The impact of liabilities and financial exposures across the HFL group
- Looking ahead to how possible external and internal changes could individually and collectively impact on the business (stress testing). This includes assessing how the activities of one part of the group impact other companies.

Risk management is an ongoing process that is linked to the HFL Group business plan. HFL Group monitors its performance against the objectives and targets set in the business plan, which includes the identification of risks. Management of risk is part of the day-to-day process of managing Group's activities and is embedded in the work it does. Risks are recorded in the agreed way and key risks are regularly reviewed by the Executive and escalated to the Board for their oversight and further recommendations.

HFL Group's key areas of activity will be related to the development of new homes and managing homes within the portfolio. When assessing potential development projects, in a first step in managing risk, HFL Group will only undertake projects that:

- fulfil the aims and objectives in the Business Plan
- are financially viable in the short, medium and long term
- satisfy the financial criteria needed to service and repay debt and meet HFL Group's target financial returns

Overview of Risk Management

The HFL Group risk management process involves the following steps that are undertaken by the company's executive.

- The Board **defines** an appropriate level of risk to which the business can be exposed and the executive works within this framework
- Risks are **identified** in terms of if / how they may impact the delivery of certain objectives
- Risks are **assessed** in terms of their likelihood an impact and scored accordingly
- **Mitigation** measures are identified and implemented where possible. Where mitigations are outside the organisation's direct control, they are closely monitored and steps are taken to mitigate the impact on the organisation
- Risks are **reviewed** at an executive level and the dashboard risk register is reported to Board at each meeting. If risks arise outside this reporting cycle, they will be reported to Board as soon as possible along with the proposed mitigating actions.

The process of identifying and defining the risks underpins HFL Group's commitment to delivering more and better homes in Lambeth and maintaining services for residents. Good risk management will enable the organisation to:

- Develop a common understanding of risk and the risks the organisation faces
- Develop capacity to respond to risk appropriately
- Provide an effective check that the activities planned to be undertaken will help in meeting corporate objectives
- Build an effective and appropriate control structure that can be managed ultimately by the Board.

Risk appetite

The HFL Group Board has determined that it will focus on monitoring risks with a net score, post-mitigation, of 12 and above. It does not want HFL Group to tolerate risks that have a net score 24 or above. The risk scoring matrix has been reviewed and adjusted to account for the different financial and operational impact levels of the different companies within the Group. For example, the financial impacts within HFL Homes operation are lower than those within HFL Build which typically is involved with high value contracts. This position has been agreed with the Council.

The Board may vary the amount of risk it is prepared to take as circumstances change. It will review risk appetite as part of the process of reviewing this Risk Management Policy.

Risk Management Methodology

HFL Group takes a thorough but practical approach to risk management. The key steps taken in the risk management methodology are outlined below.

i) Identification

The Board will consider risks arising from the external operating environment alongside those from the current business model and any changes to business activities under consideration. This may be done at the annual Board Away Day or other suitable meetings of the Board during the year. At this time, it also will review its appetite for risk. This high-level discussion will inform corporate strategy, business planning, the risk register and the wider approach to risk management.

When an individual risk is identified, it is discussed by the management team to agree if it should be added to the risk register. Risks may relate to current or proposed operations and actions taken in response will differ accordingly.

The risk is categorised into:

- **Health and Safety:** risks that may impact on the health and safety of tenants and residents; our construction partners or other key suppliers and impact on programme delivery; or employees;
- **Macro-Economic Risks:** risks that may impact sales values, construction costs, programme delivery, access to grants, availability of labour, market disruption e.g. COVID-19 and BREXIT
- **Governance and Scrutiny:** risks that would impact HFL Group's ability to meet its Business Plan objectives and provide good governance and oversight in the best interest of its tenants, the schemes it is delivering and services being provided to third parties such as Lambeth Council. This includes regulatory matters pertaining to HFL Homes.
- **Programme Management:** risks that will impact on the HFL Group's ability to secure scheme approvals and financing through Joint Approvals Board, manage development activities and the homes it ultimately delivers to tenants. **Resources:** risks that may impact the ability of HFL Group to provide or obtain the resources required to deliver its aims and objectives

A description of the risk is provided. This should be succinct and capture the key causes of the risk and the impacts would arise if the risk materialised.

ii) Assessment

Risks are assessed according to their likelihood and impact. The impact of the risk is subject to the organisation's risk appetite and ability to withstand certain risks. The assessment is carried out with scores identified for each risk as shown in the matrix below.

SCORING MATRIX				
Impact	Minor (1)	Significant (2)	Serious (4)	Major (8)
Likelihood				
Very Likely (4)	4	8	16	32
Likely (3)	3	6	12	24
Unlikely (2)	2	4	8	16
Very Unlikely (1)	1	2	4	8

PRIORITY	
High Priority	Items that pose a perceived immediate risk and require urgent action to reduce the risk level
Medium Priority	Items that require attention but do not currently pose an immediate risk
Low Priority	Items that pose some risk

Impact ratings are derived from an assessment of several factors including:-

- Financial
- Reputation
- Health and Safety
- Service disruption.

The impact and likelihood ratings are listed as a tab on the risk register.

An additional assessment will be undertaken periodically to consider the cumulative impact of the risks faced by HFL Group. This helps to identify what would happen to the business should a combination of risks or all risks materialise. Stress testing will be undertaken as part of business planning, for all project investment proposals, as well as to inform day to day operations.

Proposals for new schemes where investment of time, resources or funding by any company within the HFL group are required and which will progress to Joint Approvals Board for final approval, must contain a thorough risk assessment. The risk assessment must include:

- Identification of key risks
- Stress-testing with clear financial and time-based outcomes for the key risks, including identification of combined stress test scenarios
- Clear explanation of how the risk(s) impact the different companies within the HFL group
- Cross-functional review of the investment proposal taking account of financial, commercial, resource and governance risks
- Proposals for ongoing monitoring of risks and reporting to Board.

iii) Management

Once identified, risks should be managed to be within acceptable risk appetite levels, Mitigation measures must be identified setting out how HFL Group will seek to either reduce or remove the risk, or reduce its impact on the organisation. These mitigation measures should be practical and within the control of the organisation.

A timetable should be provided to highlight the time period within which the risks need to be mitigated. This should be revisited on a regular basis to ensure that appropriate actions are being taken in a timely manner. Risk owners are identified in the risk register to ensure that an individual is identified to manage the risk. This does not mean that this individual must undertake all activities to mitigate the risk but, rather, that they are responsible to overseeing the mitigation activities and reporting on progress.

Risks should also be scored on a post mitigation basis to assess whether there is a residual risk that remains after mitigation actions have been undertaken. Residual risks must continue to be managed; if the management of the risk itself is outside HFL Group's control, the impact on the organisation should be actively monitored to reduce the negative impact to the organisation's ability to deliver its objectives.

iv) Review

The risk register will be reported to each executive team meeting and a dashboard will be reported to each Board meeting, with trends highlighted for consideration. More detailed day to day risks will be managed by the Executive. For development schemes, the project teams will identify and manage risks, highlighted those that should be escalated to the Board for attention.

If material risks emerge (those with potential to have a material impact on the business) outside a Board meeting cycle, they will be reported to Board members through alternative means. This may include emails or phone call.

Results of stress testing will be reported at least annually and will be discussed by both Executive and Board as part of the business planning process.

HfL Boards and Executive will carry out periodic 'deep dives' into key areas of risk as part of the ongoing process of understanding risk triggers, causes and effects, likelihood of occurrence and effectiveness of mitigating controls and actions.

Control and Assurance Framework

Key elements of the control and assurance framework are:

- Memorandum of Understanding including Delegated Authorities
- Joint Approvals Board with Lambeth Council and embedded 'gateway' procedures
- Internal policies e.g. Financial Regulations, Procurement Policy, Scheme of Delegation to Executives
- Internal reporting e.g. management accounts, budgets, long-term business planning and key performance indicators
- Asset and liabilities register (and reporting of this)
- Health and Safety reporting
- External business advice and specialist reports (e.g. market intelligence, valuations and legal)
- Corporate culture created by the Board and Executive – transparency and honesty including adherence to Nolan Principles
- Annual compliance reviews and assurance reporting from Executives to Boards
- Internal and External Audit
- Regulatory oversight of HFL Homes

These combine to form appropriate levels of defence, whereby risks and exposure to them are identified, acknowledged, understood and addressed appropriately. This approach also provides assurance that responses are effective.

Review

This policy, including its mechanisms and effectiveness, will be reviewed annually.

HFL Policy Name:	**HFL Risk Management Policy**
HFL Policy Owner:	HFL Finance Director
Applies to:	All HFL Group Companies
Policy Compliance:	Annual Review
Policy reviewed and updated	[May 2020]

Policy Review Cycle:	Every Year. Next review May 2021
Version Control/Audit Trail:	