Approved by Management Committee 22/08/24

GROUP FRAMEWORK

Date Issued	August 2024
Last Review Date	n/a
Department	Corporate
Title	**Risk Management Framework**
Objective	To describe our arrangements for identifying, managing and controlling risk and ensuring we make informed, risk based strategic level decisions
Responsible	Chief Executive
Next Review Date	August 2029

1.0 Introduction

1.1 ELHA Group's vision of **Healthy Happy Homes** and our culture and values are underpinned by a creative and innovative approach to providing efficient and effective services, for the benefit of our tenants and other stakeholders.

1.2 The social housing sector operates in a challenging and dynamic environment, where all business processes and decisions contain some degree of risk. Our Risk Management Framework is designed to manage and mitigate that exposure; to see the early warning signs of emerging risks and to have sufficient flexibility within the business and financial plans to make appropriate adjustments to manage those risks, should this become necessary.

1.3 We aim to reduce uncertainty and enhance success of business outcomes by making informed, risk-based decisions. The Group recognises that a robust Risk Management Framework is an essential business planning tool and an integral component within the strategic planning process.

1.4 As a Registered Social Landlord (RSL), the Group must comply with the SHR's Governance Standards, specifically:

Standard 3.3 requires RSLs to have *"robust business planning and control frameworks and effective systems to monitor and accurately report delivery of its plans. Risks to the delivery of financial plans should be identified and managed effectively. The RSL should consider sufficiently the financial implications of risks to the delivery of plans".*

1.5 In simple terms, risk can be summarised as: "The uncertainty that surrounds future outcomes". Within that context, Risk is defined by the Group as:

"The threat that an event or action will occur which would adversely affect our ability to meet our business objectives, including the maintenance of our financial strength, our governance, our ability to continue to deliver safe, quality services to our tenants and other service users, and the retention of our positive public image".

1.6 This framework sets out our strategy for dealing with risk appetite, explains how risk is managed across the Group and defines the processes to test the Group's resilience to risk. The framework applies to all parts of the Group, including R3.

2.0 Risk Management Framework

2.1 The Group's Risk Management Framework aims to align our risk profile to strategic, business level, financial management and specific project plans.

2.2 The Framework addresses the following categories of risk, which may not all be mutually exclusive:

- Strategic Risk (linked to specific business objectives)
- Operational Risk (arising from day-to-day and service delivery activities)
- Project Risk (specific timebound activity or outcome)

2.3 The same defined methodology is applied at all levels/categories of risk, linked to objectives and outcomes within appropriate plans, with adjustments in terminology, where appropriate.

2.4 The Framework is based on a structured approach to Governance which incorporates the following elements:

- The organisation's **Strategic Objectives** as defined in our Business Plans (plans are prepared based on latest operational budgets and assumptions of future economic conditions and operational changes, prepared within the "Golden Rules" parameters set out in the Risk Appetite Statement)
- The aims and objectives defined within our plans must articulate what a successful outcome looks like and what is required to achieve this, before potential risks can be determined
- **Risk Appetite Statement** – This sets out the Management Committee's appetite to risk across the Group's activities and sets 'Golden Rules' which ensure that key risks are monitored and managed effectively (it can also be used to determine risk thresholds within specific plans or objectives)
- **Corporate Risk Register** – Contains detail of our key strategic risks within corporate strategies and our Business Plan, with risk scores, controls and assurance on how these risks are managed

- **Operational Risk Register** – Contains detail of risks arising from the implementation of service plans and key day to day service provision, with risk scores, controls and assurance on how these risks are managed

- **Project Risk Registers** – for control or risks relating to major projects such as introducing new infrastructure, or major organisational change

- **Stress Testing Register** – This sets out the stress tests and sensitivity analysis carried out on the Business Plan to test against changes to underlying assumptions (this is developed from the Corporate and Operational Risk Registers and considers any relevant information published by the Scottish Housing Regulator, it also includes an assessment of operational, sector and economic risks)

2.5 Linked to the Risk Management Framework are activities including Internal and External Audit, Business Continuity Planning, maintaining an asset and liability register and an internal control framework.

3.0 Risk Management Information System

3.1 As part of its Digital Governance Strategy, the Group uses Decision Time, a digital governance software package, which contains an integrated risk management module.

3.2 The software, among other functions, is used to hold and update risk registers and provide relevant reporting, as well as providing an audit trail of decisions for assurance purposes.

4.0 Risk Appetite

4.1 Risk appetite is defined as the level of risk an organisation is prepared to accept in the pursuit of its objectives. Defining corporate risk appetite will help to achieve clarity over the risks the organisation wishes to assume and is therefore at the heart of not only the Group's Risk Framework, but its overall business strategy.

4.2 The Risk Appetite Statement is not absolutely prescriptive, but instead provides several underlying component parts that encourages structured thinking. The aim of the Statement is to allow the Group to reach an informed conclusion as to when and how much risk can be taken, and to what extent, to achieve the desired outcomes. In addition, this can also help identify risks where there may be too much or too little control or mitigation.

4.3 The ELHA Group continues to be progressive, creative and innovative in its business plans, as is exemplified by our sector-leading digital strategy. Recognising that this provides both opportunities and risks, we acknowledge therefore that controlled risk-taking is fundamental to innovation and the need to embrace new challenges.

4.4 At a strategic level, risk appetite should be considered in the development and maintenance of the Corporate Risk Register and used to influence the decisions taken by the Group. Determination of risk appetite at strategic level should typically lead to a determination of the organisation's desired risk profile, (a factual statement of the organisation's current, cumulative exposure to risk based on the impact of the risk and the likelihood of it occurring), and by comparison with current risk exposure, the actions required to attain it.

4.5 The Management Committee will review and establish the Group's Risk Appetite annually, in the form of a written statement. The Group's current Risk Appetite Statement is attached at **Appendix 2**. The Management Committee may agree different levels of Risk Tolerance for specific risks within the overall context of its Risk Appetite Statement.

5.0 Embedding Risk Management

5.1 Risk needs to be addressed at the point at which decisions are being taken and resources allocated. When the Management Committee, Risk & Audit Committee or Senior Management Team are asked to make key decisions, they will be advised of the risks associated with the recommendations under consideration.

5.2 Risk management is inextricably linked to the strategic planning process through the maintenance of the Corporate Risk Register, supported by operational risk identification and management.

5.3 Effective risk management controls the risks to the Group's plans, and in particular the achievement of the Business Plan. If they are not properly considered and assessed, it is recognised that there could be a weakness in strategic management that could lead to poor outcomes or results. In turn, objectives in outcomes within business and project plans need to be clearly defined (as SMART objectives) for the risk management to be effective. It must be clear what outcomes are expected before risks can be identified.

5.4 Risk management techniques should be embedded into major projects or new business opportunities and include clear monitoring and reporting mechanisms. All new partnerships and key procurement arrangements have an assessment of risk at the development stage to ensure all reasonable measures are put in place.

5.5 The Group ensures that it has the necessary skills and expertise to deliver the Risk Management Framework. This is achieved through tailored risk management guidance notes, training and awareness sessions based on routine training needs analysis or defined in specific role specifications.

5.6 It is the aim of the Group that every team and all employees apply the principles of the Framework to their day to day working activities so that risk management is embedded in the culture of the organisation. This is enhanced through the system of induction, regular one to one meeting between employees and their line manager, guidance and training.

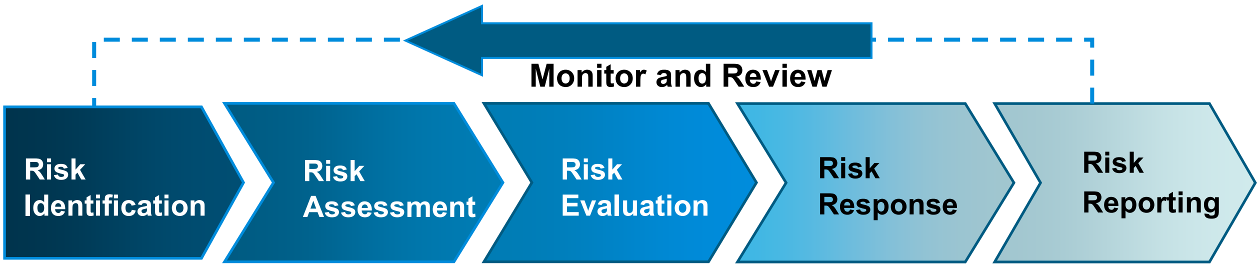
6.0 Roles and Responsibilities

6.1 Whilst there are some responsibilities in the development and implementation of the Group's Risk Management Framework that are key to all internal stakeholders, key responsibilities held by specific groups are identified below:

Management Committee	• Overall responsibility for the management of risks • Approve the overall Risk Framework • Approve the Strategic Risk Register and maintain awareness of the key risks facing the organisation • Regularly consider and agree Corporate Risk Appetite • Receive assurance of the Internal Control Framework • Agree "Golden Rule" and associated triggers
Senior Management Team	• Oversee the implementation of the Framework • Ensure that strategic risks are assessed and managed • Monitor project risk management • Promote a culture of risk management • Day to day operation of the Framework • Identify new or emerging risks • Operation of operational risk registers
Risk & Audit Committee	• Monitoring, oversight and assurance • Seek evidence that risk management practices are effective and appropriate • Review effectiveness of the mechanics in place for the management of risk - impacts on stated outcomes • Does not set or approve policy
All staff	• Effective application of controls • Report any near miss / risk events • Contribute to the day to day operation of the process

7.0 Methodology

7.1 Within the Group's Framework, the methodology established for managing risk comprises the flowing elements:



- Identifying risk in relation to the achievement of objectives and planned outcomes

- Assessing and evaluating the likelihood and potential impact and ranking according to the assessment of relative significance prioritising

- Responding with actions to mitigate significant risks

- Monitoring effectiveness of response and reviewing to identify further action

7.1 Identification of Risks

7.1.1 Risk Identification identifies the Group's exposure to uncertainty. Risks can arise in a number of ways and may be:

- Reactive - in response to an adverse event or lessons learned

- Proactive -potential risk which could affect business outcomes

- Internal - arising from the Group's activities or methods

- External - effects of unexpected events

7.1.2 These may be:

- Strategic (linked to specific business objectives)

- Operational (arising from day-to-day and service delivery activities)

- Project risk (specific timebound activity or outcome)

7.1.3 They may be identified in a variety of ways including:

- Management Committee Away Days / Workshops, reviews of the Corporate Plan and the results of periodic stress testing and covenant reviews

- Adequate time where required in the early sections of Management Committee and other relevant Committee agendas to allow appropriate priority to risk management

- External sources, for example briefings from the Scottish Housing Regulator, as well as sector briefings from external partners and horizon scanning

- Risks identified through Internal and External Audits

- Risk management meetings to review the Corporate and Operational Risk Registers

- Risk sections in relevant reports to Management Committee or Risk & Audit Committee

- Identification of risks through operational management plans, change management initiatives and projects

- The outcome of employee surveys if there is reference to any risks that are not currently managed

- By gathering the information about potential risks at team meetings

- Customer feedback that identifies risks, including surveys and complaints

7.2 Assessment and Evaluation of Risks

7.2.1 Risk assessment and evaluation takes place once risks have been identified and involves establishing the likelihood (or probability) that the risk will occur and the impact it would have if it occurred.

7.2.2 Each risk has three assessment types: Inherent Score, Current Score and Target Score. This allows the identification of the level of internal control that we have in place, and, therefore, any potential risk control gaps.

7.2.3 More detail guidance on how the Group evaluates and scores risks is detailed in **Appendix 1.**

7.3 Risk Response

7.3.1 Risk response defines the options by which risk can be “treated” or mitigated by taking steps to reduce adverse effects. When considering which of these responses might be appropriate, particularly high-level risks, it is important to take into account not only the Group’s overall risk appetite but the threshold acceptable to the specific risk or business objective.

These options include:

Tolerate (accept / retain)	**Treat** (control / reduce)
• The risk here is considered acceptable to the Group; or • The ability to do anything about the risk is limited; or • The cost of taking action may be disproportionate to the potential benefit gained • A tolerated risk should be monitored and re-evaluated in the future	• The level of cost-effective (corrective) controls put in place to manage the risk to an acceptable level are in place • Is it likelihood or impact that can be influenced? • The response is proportionate to level of risk and the costs/benefits associated with action • Treatment is usually aimed at reducing the likelihood of risk materialising or limiting its impact • Most risks will be managed this way
Transfer (insurance / contract)	**Terminate** (avoid / eliminate)
• The decision is taken to transfer the risk to a third party • Often by means of insurance or contractual transfer such as paying a third party to take the risk	• A level of risk that should be avoided and if possible, should be eliminated; • Some risks will only be dealt with to acceptable levels by terminating the activity • This is likely to have a knock-on effect on outcomes or objectives in Business Plans

7.3.2 Risk control (i.e. treatment) may involve choosing alternative strategies, implementing a contingency plan or taking corrective action. Examples of intervention to mitigate operational risk might include:

- Preventative controls stop an event happening (e.g. an automatic cut- out system on a gas boiler, in the event of the boiler not having been serviced within the requisite time period)

- Detective controls warn when an event has happened (for example, a Carbon Monoxide alarm which sounds loudly when poisonous fumes are above a minimum, safe level)

- Directive controls seek to dictate an operation such that a risk is avoided (for example, user instructions for a boiler, which advise on safe operation)

- Corrective controls check that things operate as they should and correct the situation where they do not (e.g. a Health & Safety Audit applicable to our gas servicing procedures)

7.4 Monitoring and review

7.4.1 By monitoring and reviewing risk registers, risk are managed by a process of keeping track of the identified risks, monitoring Inherent, Current and Target Risk Scores. This includes ensuring the execution of risk controls and evaluating their effectiveness in reducing risk. Risk monitoring and control is an ongoing process involving:

- Implementation of risk responses as planned
- Reviewing risk response actions to ensure they are as effective as expected, or if new responses should be developed
- Reviewing project assumptions to ensure they are still valid
- Assessing whether risk exposure has changed from its prior state, with analysis of trends
- Ensuring policies and procedures are followed
- Identifying any new or emerging risks

8.0 Risk Escalation and Reporting

8.1 Operational Risk Registers

8.1.1 Operational Risk owners are Directors who are required to review and update their Operational Risk Register at least quarterly.

8.2 Corporate Risk Register

8.2.1 Corporate Risk Owners are the Senior Management Team, who are in turn required to review and update the Corporate Risk Register taking into consideration the outputs from the Operational Risk Register.

8.2.2 The outputs of the Corporate Risk Register will be summarised within a Corporate Risk Dashboard. This will provide a summary identifying the Inherent, Current and Target Risk scores for each risk event.

8.3 Project Risk Registers

8.3.1 The Project Leader would review and update the Project Risk Register during the development and implementation of the project.

8.4 Using Risk Registers

8.4.1 The Total Risk Score is used to define the detail in which risks are considered, delegated and escalated. The Total Risk Score of relevant risks is reported as part of the standard template for Management Committee reports.

8.4.2 Those Corporate Risks with a current Total Risk Score of 20 and above (which are therefore associated with a high or severe level of risk) will form the basis of the list of ‘top risks’ when these are reported. These risks will require a greater degree of focus as will those Corporate Risks which are increasing in probability or impact at or above the total risk score of 20 when re-assessed.

8.4.3 To assist with continued improvement, reporting will include:

- Any risks that materialised that were significant omissions from the Corporate Risk Register, together with reasons and lessons learned

- Any changes in assessment of probability or likelihood since the last review

- Any published changes in best practice or approach since the last review, including the recommended response to such changes

8.4.4 All papers to the Management Committee (or Risk & Audit Committee), which have a material financial impact, or which recommend a significant change in policy, will also include a risk report.

9.0 Assurance

9.1 Risk Assurance requirements and related arrangements should (in part) be determined by the Management Committee’s agreed Risk Appetite and how much risk they are willing to take in pursuit of strategic objectives.

9.2 The level of risk assurance should also be related directly to the level of risk which the controls are mitigating. Low level risks require lower levels of assurance on the operation of controls put in place to manage them, whilst significant risks require a much higher level of assurance.

9.3 Once the risk appetite is defined, risk owners will know where more or fewer controls are needed to reduce the likelihood or impact of each risk. The greater reliance on controls to reduce risk to acceptable levels, the greater the assurance needed and vice versa.

9.4 The Group uses the ‘Three Lines of Defence Model’ for risk assurance:

- The first line of defence is Management – functions that own and manage risks (the first level of assurance comes from the operational area that performs the day to day internal and management controls such as operational plans, operational risk register and operational internal controls)

- The second line of defence is Oversight – functions that oversee risk (other functions within the Group, such as Governance, Finance, HR and Asset Management provide assurance through risk management, corporate reporting, quality and inspection and compliance reviews, for example)

- The third line of defence is Independent - assurance provided from outside the Group, such as External Audit, Internal Audit, regulatory assessments, external providers, certifications and accreditations.

9.5 The assurance model is used to demonstrate the relationship between risk monitoring and assurance. For each risk on the Corporate Risk Register, information on the source of assurance for each existing control is documented as well as the evidence to support the assurance.

9.6 The assurances for each risk can be graded and reported accordingly using the following categories:

HIGH	MEDIUM	LOW	OTHER
Controls in place assessed as adequate / effective and in proportion to the risks	Some areas of concern over the adequacy / effectiveness of the controls in proportion to the risks	Significant concerns over the adequacy / effectiveness of the controls in proportion to the risks	Insufficient information at present to judge the adequacy / effectiveness of the controls

9.7 As part of the Assurance and oversight components of the Framework, the Management Committee will:

- Review and establish Risk Appetite at least Annually

- Receive the Group's full Corporate Risk Register and a cover report which includes an update on emerging risks and notable changes / updates to the top corporate risks at least annually

- Have access to the Group's Corporate Risks summarised through the Corporate Risk Dashboard at all times.

- Be responsible for reviewing the effectiveness of internal control within the Group, based on information provided by the Senior Management Team and the Risk & Audit Committee

- Review the annual Assurance Statement, based on information provided by the Governance Standards Working Group. The purpose of the review is to:

    - Ensure compliance with the Governance Standards

    - Monitor progress against areas requiring improvement

    - Highlight and monitor risks arising from the legal and regulatory environment

9.8 The Risk & Audit Committee will present a formal annual review to the Management Committee, the purpose of which is to:

- Examine the Group's performance on risk management in the preceding year
- Consider the latest Corporate Risk Register and whether current internal control arrangements are likely to be effective
- Assess the Group's control environment including organisational structure, culture and reporting mechanisms
- Receive a detailed review of the Group's Risk Management Framework at least annually
- Receive and review the Group's full Corporate Risk Register and a cover report from the Senior Management Team which includes an update on emerging risks and notable changes / updates to the top corporate risks at least six monthly
- Have access to the Group's Corporate Risks summarised through the Corporate Risk Dashboard at all times.
- Receive 'deep-dive' reports from Senior Management Team on individual corporate risks as and when agreed with / by the Risk & Audit Committee

9.9 The table below outlines the risk related documentation, reports and or deliverables which are required as part of the Framework.

	Management Committee	Risk & Audit Committee
Risk Management Framework	Annually	Annually
Risk Appetite	Annually	Not applicable
Corporate Risk Register & Update Report	Annually	Quarterly
Corporate Risk Dashboard	Always available	Always available
Internal Controls	Annually	Annually
Business Plan	Annually	Not applicable
Stress Testing	Annually	Not applicable

10.0 Monitoring and Review

This Framework will be reviewed at least every five years by the Management Committee.

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APPENDIX 1 - Guidance on Evaluation and Scoring Descriptors

- Inherent Score – where there are no controls in place to mitigate the risk (untreated or raw)

- Current Score – where the Group currently assesses itself in terms of risk, based on the controls and mitigations already implemented

- Target score – where we expect the score to be once all controls and mitigations are in place, and identified future actions are completed (taking into consideration Risk Appetite)

    - For each of these, a score is calculated based on the likelihood (or probability) that the risk will happen and the impact if it does happen.

    - The likelihood / probability score is calculated based on a scale of 1 (very low risk of occurrence – extremely unlikely) up to 5 (very high risk of occurrence – almost certain).

Score	Likelihood	Criteria
1	Negligible	• 0-5% extremely unlikely • Virtually impossible (i.e., one-off event)
2	Low	• 6-20% low but not impossible • An event that is unlikely to occur more than once every few years or has not occurred historically
3	Medium	• 21-50% fairly likely to occur. • Possibly could occur but infrequently but not more than once every 12 months • Could occur more than once within the time period and may be difficult to control due to some external influences
4	High	• 51-80% more likely to occur than not • Likely could occur but on a sporadic basis i.e., at least once a year • Potential of it occurring several times within the time period or has occurred recently
5	Severe	• 81-100% almost certainly will occur • Highly likely could occur on a regular basis, i.e., several times a year

- An impact score is calculated on a scale of 1 (insignificant impact) to 5 (catastrophic impact).

Score	Impact	Criteria
1	Insignificant	No impact
2	Minor	Minor impact within one or more criteria
3	Moderate	Moderate impact within one or more criteria
4	Major	Major impact within one or more criteria
5	Catastrophic	Severe impact within one or more criteria

- The risk scores are calculated by plotting the likelihood and impact scores on a matrix. An example of how this works is given below:

Impact

5	5	10	15	20	25
4	4	8 Current	12 Inherent	16	20
3	3 Target	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	**2**	**3**	**4**	**5**

Key

Low
Medium
High
Severe

Inherent = Likelihood 3 * Impact 4 = 12 (Outside risk appetite)

Current = Likelihood 2 * Impact 4 = 8 (Outside risk appetite)

Target =Likelihood 1 * Impact 3 = 3 (Within risk appetite)

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APPENDIX 2 – Risk Appetite Statement

To be considered by the Risk & Audit Committee