



REGISTERED SOCIAL LANDLORDS PANEL

**CHECKLISTS FOR BOARD MEMBERS
RISK MANAGEMENT**

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AT THE HEART OF
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THE ROLE OF THE NON-EXECUTIVE BOARD MEMBER

Whilst every member of the board takes collective responsibility for the decisions that are made, the specific role of the non-executive board member is defined as to:

- €# contribute to strategy: non-executives bring a range of perspectives to strategy development and decision making
- €# make sure effective management arrangements and an effective team are in place at the top level of the organisation
- €# delegate: non-executives help clarify which decisions are reserved for the governing body and delegate the rest
- €# hold the executive to account: the governing body delegates responsibilities to the executive. Non-executives have a vital role in holding the executive to account for its performance in fulfilling those responsibilities, including through purposeful challenge and scrutiny
- €# be extremely discriminating about getting involved in matters of operational detail for which responsibility is delegated to the executive.

(The Independent Commission on Good Governance in Public Services, *The Good Governance Standard for Public Services*, Pg. 10. 2.2)

RISK MANAGEMENT

Within this role, risk management is important because it is central to good governance, effective business planning, and to safeguard stakeholder assets.

The board's responsibilities in respect of risk management follow directly from its ultimate control and responsibility for the organisation. An effective risk management system is crucial to obtaining a full picture of what is happening within an organisation and maintaining responsibility. It is however, important to note that risk management does not mean the elimination of risk. Risks are part of

both the opportunities and threats that face an organisation.

BOARD RESPONSIBILITIES

ENGLAND

For housing associations in England risk management is an explicit obligation under the terms of the Regulatory Code:

Housing associations must operate a framework that effectively identifies and manages risk, identifying all major risks that might prevent them achieving their objectives with the necessary arrangements to manage risks and mitigate their effects.

(The Housing Corporation, *The Way Forward: Our approach to regulation*, Para 1.2-1.2.2)

The associated guidance for risk management states:

- €# the association's risk management framework highlights key risks and how they are to be managed
- €# the governing body regularly reviews activities and policies and all new business decisions
- €# there are internal control systems. Their effectiveness is regularly reviewed by the governing body and reported in the annual report.

The Board is required to submit, in addition to the Annual Compliance Statement, an 'Internal Control Assurance Statement', which requires the board to conduct an annual review of the effectiveness of the systems of internal control.

SCOTLAND

The Standards issued by Communities Scotland are similar and state that an RSL should be able state in their self-assessment report:

We identify and appraise the most important risks we face and take a prudent approach to managing them.

(Communities Scotland, *Performance Standards for Social Landlords and Homelessness Functions*, GS4.4)

WALES

In Wales the requirements are broadly the same and state:

The board should ensure the current and future viability of the RSL, in particular by:

- €# recognising the dangers of cash shortfalls, and planning accordingly;*
- €# formulating a risk management policy, quantifying any significant risks facing the RSL and maintaining free reserves and cash at a level appropriate to those risks;*
- €# ensuring that financial appraisals are prepared for each new capital scheme, and that the appraisal is subjected to sensitivity analysis in accordance with the risk management policy;*
- €# ensuring that all insurable risks and liabilities are identified and, where appropriate, adequate cover is obtained.*

National Assembly for Wales, *Regulatory Requirements for Registered Social Landlords in Wales*, 3.1)

In order to comply with the requirements of risk management, the board must be satisfied that a risk management framework is in place that does not seek to eliminate risk, but establishes a systematic approach through which risk is identified, assessed, managed and monitored. This framework must be regularly reviewed by the board and is the subject of external assessment.

KEY QUESTIONS

Board members may wish to look at risk management in the following areas:

Strategic direction and business planning

An effective board is one that leads by example and plays an active role in strengthening the RSLs approach to risk taking and risk management. This can only be achieved through active participation in the development of the strategic direction and business plans. Consideration of risk management would therefore fall within, and should follow from this starting point; as to be effective risk management must be embedded in the structures of governance and integral to all activities.

Board members should not approve the strategic plan in the absence of a thorough understanding of the main risks that may affect the achievement of the objectives set, as only if these risks are understood will the board be able to exercise effective oversight. Non-executive directors can bring a range of perspectives to these discussions that enable them to challenge executive assumptions. As a result they should be able to think in terms of the unthinkable; the worst case as well as the best-case scenario, and ask the tough questions regarding the consequences of such scenarios to bring focus to the interests of the key stakeholders.

Board members might wish to keep in mind this checklist of questions when considering strategic and business planning.

Strategic direction and business plan – a checklist of questions:

- ⚡# Has a formal decision been taken on the types of decisions/responsibilities that have been delegated to the executive and those that are reserved for the governing body?
- ⚡# Has the board's ultimate responsibility for risk management been made clear?
- ⚡# What are the main strategic, operational and financial risks arising from the business plan? Are they external, would they arise from changes in government policy/funding in relation to for example the Supporting People Programme? What about unstable/falling demand for property? Or are the main risks operational? Would they arise from situations such as the rising cost of managing and maintaining properties?
- ⚡# Has the potential impact of the identified risk been assessed? How?
- ⚡# Does a risk register exist that scores each identified risk and determines the person responsible for its management?
- ⚡# What processes are in place to manage risk?
 - ∞ # Do they inform budget setting/resource allocation?
 - ∞ # Are 'riskier' areas prioritised?
- ⚡# Is an audit committee in place to monitor the effectiveness of the risk management framework? If not what assurances are in place to demonstrate that risk management processes are effective?
- ⚡# Have levels of acceptable risk been set?
 - ∞ # Has the business plan/resource limits been reviewed against them?
 - ∞ # Have they been communicated to the executive?
 - ∞ # What measures are in place to measure 'risk exposure' against the level of acceptable risk?

New business proposals

New business proposals may come up outside of business planning process. Such proposals are likely to involve an element of risk and therefore must be reviewed by

the board.

Board members might wish to keep in mind this checklist of questions when considering new business proposals.

New business proposals – a checklist of questions:

- ⚡# Does the proposed activities fall within the rules of the association?
- ⚡# Has approval been gained from the funder to take on the new business activity?
- ⚡# Does the new activity fit in with the RSL's strategic direction/objectives?
- ⚡# Have the potential risks and opportunities been well researched and documented?
- ⚡# If the proposal concerns diversification into new activities such as PFI projects/student renting, has the need for specific project and contract management skills been appreciated?
- ⚡# Does the proposal include relevant market analysis?
- ⚡# What alternatives exist, have they been full analysed, why have they been rejected?
- ⚡# What is the worst case scenario associated with the proposal?
 - ∞ # how would it impact on the ability to achieve organisational objectives?
 - ∞ # what financial flexibility does the RSL have if the risk arose?
 - ∞ # is there an exit strategy?
 - ∞ # are the risks proportional to the opportunity presented?
- ⚡# What assumptions, expectations and concerns does the executive hold – can they be challenged?
- ⚡# Should this new business area become a key area for board members to review as a key risk?

Risk management policy

Whilst the board must have a sound appreciation of the main risks faced by the association, familiarity with each and every individual risk is not feasible. However the board must be satisfied that all risks are identified and adequately provided for. There is no one process for risk identification and no one person

would have the capacity for carrying out risk identification for the whole organisation – a number of people will be involved and this involvement will need to be co-ordinated.

Board members might wish to keep in mind this checklist of questions when considering the existing risk management policy.

Risk management policy – a checklist of questions:

- ⚡# Has the process of risk identification taken into account key business operations and the services required to maintain them?
- ⚡# Are risk management procedures focused on the risks identified? For example if rent arrears is identified as a key risk to income, do rent collection procedures focus attention on reducing them?
- ⚡# Is risk reviewed regularly in light of changing external situations such as interest rate volatility or the increase in competition for grants/new business?
- ⚡# What processes are in place for identifying the risk in day-to-day operational activities?
- ⚡# What processes are in place for monitoring and managing risk in operational activities and reviewing risk related decision-making?

Overview of the risk management process

In order to fulfil the responsibility for overseeing risk management the board requires ongoing information on the conduct of risk management within the

organisation and the external situations that may affect the level of risk faced.

Board members might wish to keep in mind this checklist of questions when evaluating the effectiveness of risk management oversight.

Overview of the risk management process – a checklist of questions:

- ⚡# Is sufficient board time allocated to the review and discussion of risk related issues?
- ⚡# Does the board receive regular reports on the situation of the main risks faced – is the analysis clear and robust?
 - ∞ # Are the reports received by the board focused on the risks identified as the main strategic risks?
 - ∞ # Are they reviewed for current relevance?
- ⚡# Does the board receive reports on current developments in the external environment for example on economic and political developments and how they might affect the business plan? Are procedures in place to respond to such changes?
- ⚡# Does the board receive regular briefings on operational activities? Do they contain risk assessment sections and highlight problems even when overall performance is good?
- ⚡# The majority of the information received by the board originates with the executive; is it satisfactorily comprehensive, accurate and objective?

Review of the risk management framework and activities

Only by active review of the risk management process will better practice

be identified. When carrying out such reviews board members might wish to keep in mind the following checklist of questions.

Review of the risk management framework and activities – a checklist of questions:

- ⚡# Is the risk management framework reviewed frequently enough?
- ⚡# Does the board review the lessons learned from past events/crisis?
 - ∞ # Is an action plan in place so that findings can be acted upon and deficiencies corrected?
- ⚡# Has the risk management process ever been subject to a formal review by an independent and objective source?
- ⚡# Has the board considered the effectiveness of its risk management activities?

CONCLUSION

As a board member are you satisfied that risk within the organisation is being managed effectively and the procedures in place are not just those of detailed form filling?

FURTHER READING

Risk Management in Supported Housing, National Housing Federation

Risk Management Topic Papers, The Housing Corporation

Treading the boards: a self-assessment framework for board performance, The Housing Corporation

USEFUL SOURCES OF FURTHER INFORMATION

National Housing Federation:
<http://www.housing.org.uk/>

Scottish Federation of Housing Associations:
<http://www.sfha.co.uk>

Welsh Federation of Housing Associations:
<http://www.welshhousing.org.uk/>

CIPFA RSLs Panel:
<http://www.cipfa.org.uk/panels/RSL/>

CIPFA's RSLs Panel

The RSLs Panel reports to the Institute's Public Finance and Management Board. Its areas of interest and activity are:

- consideration of finance and policy issues relating to registered social landlords
- the production and dissemination of relevant advice and material on best practice for members and employers on social housing issues
- responding to government, professional bodies' and other bodies' consultation and discussion papers.

The Panel meets three times a year. Its meetings consider technical issues in the field of social housing finance, responses on government and others' consultation papers, and Panel projects.

Panel members

The Panel membership includes practitioners and consultancy firms working in and for RSLs, along with representatives from the National Housing Federation and national regulators. Its current membership consists of:

Richard Sheppard (Chairman)	<i>Methodist Homes Housing Association</i>
Andy Burchell	<i>Parkside Housing Group</i>
Arthur Cockburn	<i>Prospect Community Housing Ltd</i>
Suzanne Dowse (Secretary)	<i>CIPFA</i>
Andrew Heywood	<i>Council of Mortgage Lenders CIPFA</i>
Carole Hicks Lakhbir Jaspal	<i>Accord Housing Group</i>
Harry Lloyd	<i>Welsh National Assembly</i>
Brian Logan	<i>Hanover (Scotland) Housing Association</i>
Patrick McCarthy	<i>Wirral Partnership Homes</i>
Arthur Merchant	<i>RSM Robson Rhodes</i>
Katrina Michael	<i>Mid Wales Housing Association</i>
Stephen Purser	<i>Housing Corporation</i>
Deb Reynolds	<i>Adullam Homes Housing Association</i>
Julie Robinson	<i>Whitefriars Homes Ltd</i>
John Squires	<i>Wyre Housing Association</i>
Norman Thomas	<i>Places for People Group</i>
Anne Turner	<i>Orbit Housing Group</i>
Warren Finney	<i>National Housing Federation</i>
Roy Yates	<i>Communities Scotland</i>