

# RISK MANAGEMENT POLICY

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## **RISK MANAGEMENT POLICY**

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(\*Note Lanarkshire Housing Association hereinafter referred to as LHA)

### **1.0 INTRODUCTION**

- 1.1 Housing Associations or RSLs are increasingly becoming involved in more diverse and complex areas of business activity. This obviously exposes Associations to increased levels of risk.
- 1.2 LHA must, therefore, be able to recognise, identify and control these risk events. This process is known as risk management. LHA should also decide on its risk appetite towards the risk areas in its business activity.
- 1.3 This policy should be read in conjunction with LHA's Equality and Health & Safety policies.
- 1.4 Strategic and Operational risk are defined as the threat of an adverse event or action occurring, which may:
  - Result directly or indirectly in losses or damage of any kind e.g. financial, operational, reputational
  - Impact on the achievement of corporate objectives
  - Prevent opportunities being pursued
  - Impact on our stakeholders
  - Lead to failure to respond to unforeseen circumstances

### **2.0 PRINCIPAL OBJECTIVES**

- 2.1 Risk management can take different forms as follows:
  - Risk Avoidance - eliminate the risk
  - Risk Reduction - minimise the risk or impact should it occur
  - Risk Retention - accept the risk
  - Risk Transfer – transfer risk to third party (e.g. insurance policies)
- 2.2 LHA must avoid actions or contracts of any kind with other parties which put an undue or excessive risk on its:

- Assets
- Tenants
- Employees, or
- Public image

2.3 It is important that LHA promotes risk awareness and focus on key business risks. The aim is to facilitate improvements in risk management and control and encourage a proactive approach. The Audit and Assurance Sub Committee will monitor the Risk Management approach and Strategic Risk register of the Association and this will be reviewed regularly by the internal auditor within the internal audit plan framework.

### **3.0 ACCOUNTABILITY**

3.1 The responsibilities for risk management within LHA are detailed as follows:

- Governing Body or Management Committee (policy)
- Audit & Assurance Sub Committee (strategic risks)
- Chief Executive (implementation)
- Directors and Leadership team (strategic and operational risks)
- Internal Auditor (control mechanisms)

3.2 The Management Committee accepts its primary responsibility to identify and manage the key strategic risks faced by the Association. Most operational aspects are delegated to the Chief Executive, who, in turn oversees further delegation to Directors and Leadership Team, where appropriate.

3.3 In managing these key strategic risks, the Committee seeks to ensure that all actions taken contribute towards the achievement of the Association's objectives and that no actions are taken that might unduly threaten the viability of the Association, financially or otherwise.

### **4.0 STRATEGIC AIMS**

4.1 The risk management approach is designed to develop a coherent approach to potential outcomes arising from the key areas of risk or significant activities.

4.2 The risk management approach and risk registers have five main parts:

- Identification of key risks and the risk owner
- Determining the inherent and residual risk level of each risk based on likelihood and impact of the key risks
- Analysis of key risks and deciding key mitigating controls and any appropriate actions required
- Monitoring of key risks using key indicators
- Deciding the Association's risk appetite towards its key business areas

## 5.0 IDENTIFICATION OF THE KEY RISKS

5.1 The Committee will identify all of the major strategic risks faced by the Association based on knowledge of the Association's current and planned activities.

5.2 A structured identification exercise will take place regularly through the Operational Group to monitor the main risks and add or remove any as appropriate.

5.3 The Audit and Assurance Sub Committee will consider the Strategic Risk Register at each meeting to ensure that any new or enhanced risks are identified when necessary.

5.4 LHA's strategic planning process will form a key part of a risk-conscious control culture. For example, any proposal for any significant new or enhanced activity must always first consider a management review of the risks involved for the Association.

5.5 LHA should then decide on a risk appetite towards each key business area. The appetite is measured on a 5 point scale; **Adverse, Minimal, Cautious, Open, Eager**. Adverse means the Association is unwilling to take any risk and would generally avoid the risk, with Eager meaning that taking considered risk is welcomed and may actually present opportunities.

## 6.0 RISK ASSESSMENT

6.1 To ensure a comprehensive and consistent approach to the analysis and evaluation of risk, LHA will adopt a standard approach to risk management assessment.

6.2 There are two risk assessment types:

- Inherent, where LHA currently finds itself in term of risk
- Residual, where LHA will be if all the identified controls are in place to mitigate the risk

6.3 For each assessment type the analysis and evaluation stage shall include reference to the following:

- A likelihood (probability/frequency) score will be estimated. This will be estimated on a scale of 1 (rare) to 5 (almost certain)
- An impact (consequence/severity) score will be estimated. This will be estimated on a scale of 1 (insignificant) to 5 (extreme)
- A risk score will be calculated based on multiplying the likelihood score by the impact score.

The ranking of these scores is set out in the tables below:

#### Likelihood

5	Almost Certain	Probability greater than 86%
4	Likely	Probability between 61% - 85%
3	Possible	Probability between 36% - 60%
2	Unlikely	Probability between 11% - 35%
1	Rare	Probability less than 11%

#### Impact

1	Insignificant	Slight impact on service, reputation, complaint possible, litigation possible. No impact on the strategic objective.	Impact level less than 11%
2	Minor	Some service disruption, potential for adverse publicity, complaint probable, litigation probable. Immediate time resource allocated with a moderate cost impact. No effect on strategic objectives.	Impact level between 11% and 35%
3	Moderate	Services disrupted, adverse publicity, litigation probable, and increased risk of potential part failure of the business. Impact on some strategic objectives.	Impact level between 36% and 60%
4	Serious	Significant ongoing concerns exist with the	Impact level between

		business. This risk will affect the delivery of most of the strategic objectives.	61% and 85%
5	Extreme	Potential failure of the whole business. This risk will affect delivery of all strategic objectives.	Impact level greater than 85%

- 6.4 Any risks with a residual risk score i.e. after mitigating actions of over 12 (red risks) will have an unacceptable level of risk exposure which requires immediate action to be taken to ensure that appropriate control measures are in place.
- 6.5 Those risks that are scored between 5 and 12 at the residual score level (amber risks) have an unacceptable level of risk exposure and they require to be reviewed by management to ensure that this level of risk can be tolerated and what controls are in place and actions required to further mitigate such risks.
- 6.6 Any risks that are scored between 1 and 4 (green risks) are at an acceptable level of risk exposure subject to regular active monitoring.
- 6.7 A residual risk score will be calculated based on the application of the control measures.

5	5	10	15	20	25
4	4	8	12	16	20
3	3	6	9	12	15
2	2	4	6	8	10
1	1	2	3	4	5
	1	2	3	4	5

- 6.8 The Association should also consider its Risk Appetite which is the level of risk that the Association is willing to accept in pursuit of its objectives. It helps highlight the actions that are deemed necessary to reduce the areas of risk and can represent a balance between the potential benefits that could be achieved and the threats. The Association is naturally risk averse due to the nature of our business.

## 7.0 RISK CONTROL

- 7.1 The result of this risk analysis and evaluation process will be used to produce a risk approach that provides uses the risk registers as the main tool for prioritising risk controls. This process will allow risks to be mapped, control measures identified and responsibility allocated to an appropriate manager to ensure ownership and accountability in the process.
- 7.2 The responsibilities for risk controls are as follows:

- Management Committee will monitor strategic risk and assess the level of assurance provided
- Chief Executive will deliver effective controls over the strategic risks
- The Leadership Team will deliver effective controls over operational risks
- Audit & Assurance Sub Committee will receive regular reports on strategic risks as part of the agenda, to monitor and review controls

7.3 The Audit and Assurance Sub Committee will also monitor key risks by obtaining and acting upon reports from Internal Audit, and the Management Committee will review the progress on the Strategic Plan and associated risks related to achieving its objectives on a regular basis.

## **8.0 ASSURANCE**

8.1 The Risk Management Framework is a key part of the overall internal control system. Risk assurance will be provided from the following sources:

- Managers will be allocated responsibility on risks and risk control measures
- The Chief Executive and the Audit & Assurance Sub Committee will oversee risk management and compliance
- A further layer of assurance will be provided by functions that provide independent assurance to the Management Committee. This includes both internal and external audit, health & safety consultants, reviews of insurance arrangements, employment law consultants etc

## **9.0 MONITORING AND REPORTING OF RISK**

9.1 A Strategic Risk Register and an Operational Risk Register will be maintained of all strategic and operational risks identified. The Strategic Risk Register should be presented to the Management Committee annually and to the Audit and Assurance Committee at each meeting.

9.2 The Audit & Assurance Sub Committee have delegated authority to monitor and direct risk compliance. Where risks are identified as requiring further action, these can be reported to the functional sub

committee as appropriate e.g. property maintenance risks can be reported to Housing Services Sub Committee.

- 9.3 The Management Committee will receive an annual report from the Chair of the Audit & Assurance Sub Committee on controls and compliance to assist the assessment of assurance including risk management.
- 9.4 Each the likelihood and impact of each risk will be assessed with cognisance to the following Standards set out in the Scottish Housing Regulator Regulatory Framework. There may be instances where the risk is related to more than one Standard.
- **Standard 1** - The governing body leads and directs the RSL to achieve good outcomes for its tenants and other service users
  - **Standard 2** - The RSL is open about and accountable for what it does. It understands and takes account of the needs and priorities of its tenants, service users and stakeholders. Its primary focus is the sustainable achievement of these priorities
  - **Standard 3** - The RSL manages its resources to ensure its financial well-being, while maintaining rents at a level that tenants can afford to pay
  - **Standard 4** - The governing body bases its decisions on good quality information and advice and identifies and mitigates risks to the organisation's purpose
  - **Standard 5** - The RSL conducts its affairs with honesty and integrity
  - **Standard 6** - The governing body and senior officers have the skills and knowledge they need to be effective
  - **Standard 7** - The RSL ensures that any organisational changes or disposals it makes safeguard the interests of, and benefit, current and future tenants.

## 10.0 RISK MANAGEMENT IN PRACTICE

- 10.1 Risk needs to be addressed at the point at which decisions are being taken and resources allocated. When the Management Committee is making key decisions, they should be advised of the risks associated with the recommendations under consideration.
- 10.2 Risk assessments should be used in any options appraisal, and whilst it may not guarantee success it will provide evidence, assurance and transparency in the decision-making process.

- 10.3 Risk management will be incorporated into the strategic planning process through the maintenance of the Risk Registers for both strategic and operational risk.
- 10.4 Risk shall be considered within the cycles of financial planning and resource allocation and feature in both budget submissions and budget monitoring arrangements.
- 10.5 Risk management techniques will also be embedded into major projects or new business opportunities and include clear monitoring and reporting mechanisms.
- 10.6 All new partnerships and key procurement arrangements shall have an assessment of risk at the development stage to ensure all reasonable measures are put in place.

## **11.0 TRAINING**

- 11.1 It is the responsibility of the Chief Executive to ensure that the business has the necessary skills and expertise to deliver the Risk Management Policy. This will be achieved through a programme of risk management training and awareness sessions that address the individual needs of the Management Committee and employees at all levels. This training should be carried out every 2 years on a refresher basis.