Guidance – managing risk in community led housing

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This guidance is about identifying and manging risk for the development and management of community led homes. It relates to **B1 Development Risk Management** and **L8 Identifying and Managing Risk** in the **Community Led Homes Programme**.

This guidance considers the following areas:

1 Identifying and managing risk

Risk is the threat that an event or action will adversely affect an organisation's ability to meet its business objectives and execute its strategies effectively.

A specific risk is an uncertain event where, if the outcome is different from the current prediction, the project or organisation will be adversely affected.

Risks can be identified under two key types;
1. Functional risks – those risks that arise from the core activity of the organisation
2. Cross functional risks – those risks that arise from external factors that impact on the organisation

The role of the Governing Body

Management of risk should be a primary concern of the Governing Body of an organisation; whether that is leading up to or during a scheme development or post development organisation management. The Governing Body will need to:

- Develop a process for identifying key risks areas and specific risks under each risk area
- Determine how it will manage each specific risk
- Determine the process for reviewing the effectiveness of its risk management strategy
- Consider the conclusions of reviews
- Designate formal responsibility for managing each specific risk

Control environments

Controls are those policies, procedures and processes that an organisation puts in place to manage specific risks.

The control environment is the attitude towards controls which the organisation displays. If the control environment is poor, delegating the management of risk through the various tiers of management or outsourcing the management of risk would actually be a dangerous initiative and rather than attempt to manage risk under such circumstances, the organisation would be better first addressing the reasons for a poor control environment.

A risk / control aware culture may be testified by:

- High regard for integrity and ethical values within the organisation and its members
- A commitment to competence and leadership by example
- A desire to avoid errors and mistakes

- A positive attitude to auditors and auditor's recommendations
- An effective management structure

In general terms an organisation should accept those risks which it has the skills and experience to manage at Governing Body level and those where they can afford the exposure. They will need to carefully evaluate all potential new risks and ensure they do not attempt to introduce too many at once.

Identifying and rating risk

Organisation should establish a rigorous approach to identifying, recording, rating and managing risk; a Risk Management Strategy.

Risk areas and specific risks should be recorded in a Risk Register along with their rating, the controls that are being used to manage them and who has management responsibility for them.

Probability – how likely is it that a specific risk will occur? You should score each specific risk between 1 and 5 (where 1 is very unlikely and 5 is very likely).

Impact – what would happen if a specific risk occurs? You should score each specific risk between 1 and 5 (where 1 is no real effect and 5 is a catastrophic effect).

Risk mapping – multiply the probability and impact scores to get a risk score; the higher the score, the more focus the Governing Body should give to managing that specific risk.

RAG rating – allocate a level of seriousness to each specific risk where:

- R (Red) – serious
- A (Amber) – important
- G (Green) – low level concern

How to manage risk

In deciding how to manage risk, Governing Bodies need to assess the costs and benefits that the risk would imply with regard to the organisation's objectives. Critical to managing risk is understanding who is responsible for the risk and who will be affected by it. Responses to a risk can be either to:

- **Avoid**: eliminate the exposure to a risk
- **Treat (reduce)**: gather more information or update controls
- **Transfer**: pass the impact or management of the risk to another party

- **Tolerate (manage)**: adopt current controls and create fall back positions

Transferring risk

One of the main ways for an organisation to manage specific risks is to transfer them to another party; such as:

- Employing a project manager to oversee a development, improvement or major works contract
- Creating a development partnership during a scheme development
- Appointing a managing agent to deliver post development housing management and maintenance services
- Appointing an accountant to maintain financial accounts
- Appointing a human resources consultant to manage employees
- Purchasing an insurance policy to minimise liability

2   Key development risks

Undertaking a development project is complex and involves many risk areas. The key issues to maintain focus on are:

- Achieving the project objectives / targets
- Keeping the project cost within budget
- Putting in place the necessary project income at various stages of the project
- Keeping to timescales – both intermediate and final completion
- Ensuring project quality
- Maintaining control of the project

Risk areas

The key risk areas are:

- Site – can a suitable site be identified and secured for a new build or refurbishment project?
- Planning – can acceptable proposals be developed for the local authority and can planning permission be secured?
- Build costs and quality – can the project be delivered within budget whilst using the desired materials and maintaining the quality of the completed scheme?
- Finance availability and costs – can money be raised to pay for the development and will the interest rate be affordable?
- Funding availability – is money available to pay for professional fees and other non-capital costs?
- Sales – if the scheme contains properties for sale, will they be sold and at the required price, within the required timescale?
- Partnerships – if a partnership is created, will control over the project be lost?

Appointing a development partner

For enabling developers this issue is not relevant; however, consideration in projects that are delivered though this route should be given to how that enabler works with the community that the scheme will be developed for.

For existing or new organisations that are leading on developments, appointing a development partner is a critical decision. A development partner can be a private developer, a Registered Provider or a local authority. The following issues should be considered:

- The services that a development partner will provide and the costs for these should be set out in a legally binding agreement at the start of

the arrangement. The development services should be clearly separated from any ownership or longer-term management interests.

- The balance of the risk will usually determine how much control an organisation can retain in the project.
- Partnerships can however be a risk in themselves if they are not set up with the appropriate framework of clear responsibilities of each party.
- Partnerships depend on clear communication and an understanding that changing requirements will have a cost implication.

3   Key management risks

Managing and maintaining homes once they have been developed is a different activity to creating a community led housing organisation and undertaking a development. The risks associated with being a landlord (whether an arm's length freeholder or active manager) are many.

Risk areas

(a)   Functional risks

The table below outlines specific risks related to the functional risks which a landlord must manage to ensure organisational viability, excellent service provision, residents safety and legal / regulatory compliance (as appropriate); this table is for illustrative purposes only and advisors must not simply give the table to organisations but must encourage and assist Governing Bodies in undertaking their own assessments of risk and creating appropriate Risk Registers.

Risk Area	Specific Risks
Provision of accommodation	Unsuitable or illegal lettings and allocations Failure to comply with Nominations Agreements Anti-social behaviour Breaches of tenancy or lease conditions
Tenancy and leasehold management	Illegal subletting Illegal occupation Applicant fraud Delays in evicting non-compliant tenants
Collection of rent and service charges	Failure to collect and arrears domino effect Rent loss due to excessive void turnaround periods
Day to day repairs and maintenance	Failure to meet repairs standards Property deterioration Low levels of resident satisfaction Substandard quality of works Failure to claim for insurance repairs or invalidation of policy cover Contractor fraud
Major works / cyclical maintenance	Poor tendering and procurement processes Items excluded from specifications Lack of project management and oversight Low levels of resident satisfaction Lack of budgetary control Substandard quality of works
Cleaning and grounds maintenance	Poor tendering and procurement processes Items excluded from specifications Lack of contract management and oversight

	Low levels of resident satisfaction Substandard quality of works
Contract & Employee management	Breach of contractual terms Failure to recruit or retain key employees Disciplinary and grievance mismanagement Tribunal claims Long term absenteeism Employee fraud Failure to make appropriate payroll deductions and file returns to HMRC
Financial Management	Failure to comply with loan covenants Deteriorating financial viability leading to insolvency Failure to set appropriate rent or service charges Bank accounts fraud Failure to ensure appropriate insurance cover Expenses fraud Failure to comply with appropriate accounting procedures Late approval of financial statements and filing of annual returns Lack of financial control and budget management Poor VAT accounting and fraud
Governance	Failure to declare and manage conflicts of interest Poor leadership Poor member focus or groupthink Too little member participation Employee, agency or contractor response capacity
Complaints Management	Low levels of resident satisfaction Failure to resolve complaints and disputes Housing Ombudsman referrals (Registered Providers only)

(b)   Cross functional risks

There are many external influences on an organisation but unlike functional risks these are not within the control of the organisation. Strategies must however be adopted to identify how these factors impact on the organisation and what can be done to mitigate their effects. Examples of cross functional risk areas are:

- The requirements of the Regulatory Framework and compliance with those requirements (Registered Providers only)
- Management agreement compliance (managing agents)
- Government policy – national, regional and local
- The general economic environment
- Legal compliance
- Information technology failures and developments