

LWARB Risk Management Strategy

1. Introduction

This document sets out LWARB's approach to risk management and covers the following areas:

- Definition of risk
- Risk management and internal control objectives
- Risk management process
- Roles and responsibilities

2. Definition of risk

An event or series of events happening or action(s) taken that will prevent LWARB from achieving its planned objectives, in part or in full. A risk can also be the failure to take advantage of opportunities to optimise LWARB achieving its planned objectives.

3. Risk management and internal control objectives

LWARB is not risk averse as an organisation and will consider the balance of risk and reward in its decision making process. The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the LWARB's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. In particular, the system ensures that:

- LWARB's policies are implemented in practice;
- LWARB's values and ethical standards are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Performance statements and other published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

4. Risk management process

LWARB's risk management process can be presented as a list of co-ordinated activities:

- Risk Identification
- Risk Assessment
- Reporting and monitoring performance

4.1. Risk Identification

Risks are to be identified on a continuous basis by all LWARB officers and Board members and reported to the Governance and Secretariat Officer for recording and evaluation. All LWARB Officers and Board members should practise active 'horizon scanning' to anticipate future risks and these should be discussed and noted at formal LWARB meetings, and any action taken as appropriate. For example, responding to consultations on national or European legislation or policy that may affect LWARB.

Additionally, formal related risk identification should accompany any papers presented to the Board for consideration. Finally, the officers should hold formal risk identification and evaluation workshops twice a year (with open invitations extended to internal audit and Board members).

4.2. Risk Assessment

Risks are to be assessed and categorised using the risk matrix approach of scoring based on potential impact and likelihood.

The below is a guide to the appropriate score to allocate to the risk. It is not definitive and is intended only as a guide, as consideration should also be given to the nature of the objective as well as the risk that threatens it. The risk assessments are made in light of current mitigation factors but do not include potential or planned mitigation factors.

Significance/Impact of Risk:

- 5 Catastrophic
- An incident so severe in its effect that a service or fund will be unavailable permanently
 - Strategic objectives set are not met
 - Statutory duties are not achieved
 - Death of an Employee or Member of the Public
 - Financial loss over £1,000,000
 - Adverse national media attention – National televised news report
 - Litigation almost certain and difficult to defend
 - Breaches of Law punishable by imprisonment

- 4 Major
- Loss of a service or fund for six months or more
 - Non-statutory duties are not achieved
 - Permanent injury to an employee or member of the public
 - Financial loss over £100,000
 - Adverse national media attention – National newspaper report
 - Litigation to be expected
 - Breaches of law punishable by fine only
- 3 Moderate
- Loss of a service or fund for one to six months
 - Injury to an employee or member of the public requiring medical treatment
 - Financial loss over £10,000
 - Adverse regional media attention – Televised or newspaper report
 - High potential for a complaint litigation possible
 - Breaches of regulations/standards
- 2 Minor
- Loss of a service or fund for one to four weeks
 - Injury to an employee or member of the public requiring onsite first aid
 - Financial loss over £500
 - Adverse local media attention – Local news paper report
 - Breaches of local procedures/standards
 - Unlikely to cause complaint/litigation
- 1 Insignificant
- Loss of a service or fund for up to one week
 - Objectives of the individual are not met
 - Financial loss between £0 –499

Probability/Likelihood of Risk:

- 5 Almost Certain
 4 Likely
 3 Possible
 2 Unlikely
 1 Rarely

By multiplying the impact rating by the likelihood rating this produces a risk rating score. The risks can then be plotted onto a simple Risk Matrix as shown below and the level of risk determined.

The rating of risk is useful for both the prioritisation of risk and therefore controls and ensures that risks are brought to the attention of the most appropriate officers or forum, i.e. the most significant risks (scoring 15 or more and shown in red) are notified to Board level. It would be normal that only the risks in the top right hand corner are significant and action needs to be taken to reduce exposure. The higher they are in this top corner, the higher their priority should be.

The Risk Matrix:

Likelihood	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
		Impact				

Risk Ranking:

High
Medium
Low

4.3. Risk Management

Risk Management Strategies available to LWARB include the following:

Risk Avoidance	Avoiding the risk associated with a specific task, activity or project. It may be that just not exposing LWARB to the circumstances in which the risk may arise is the best strategy.
Risk Abatement	The process of combining loss prevention or loss control to minimise a risk. This risk management strategy serves to reduce the loss potential and decrease the frequency or severity of the loss. Risk abatement is preferably used in conjunction with other risk management strategies, since using this risk management method alone will not totally eliminate the risk.
Risk Transfer	The shifting of the risk burden from LWARB to another party. This can be done several ways, but is usually done through conventional insurance as a risk transfer mechanism, and through the use of contract indemnification provisions.
Risk Allocation	The sharing of the risk burden with other parties. A typical example of using a risk allocation strategy is in the formation of a joint venture.
Risk Retention	A good strategy only when it is impossible to transfer the risk. Or, based on an evaluation of the economic loss exposure, it is determined that the diminutive value placed on the risk can be safely absorbed. Another consideration in retaining a risk is when the probability of loss is so high that to transfer the risk, it would cost almost as much as the cost of the worst loss that could ever occur, i.e., if there is a high probability of loss, it may be best to retain the risk in lieu of transferring it.

Based on the selected risk management strategy, specific control procedures can be developed for each risk.

4.4. Reporting and monitoring risk performance

The key reporting tool will be the risk register (see section 4.5) supported by reviews and opinions of the internal and external audit functions and evaluation of risk management activities by the Audit Committee. The risk management framework will be reviewed annually and a risk based audit plan will be developed on the basis of this review.

All Audit reports and minutes of the Audit Committee will be made publicly available via the website.

4.5. Risk register

The risk register will be the key control document, used to capture, evaluate, prioritise, manage and report risks. It will be held and maintained by the Governance & Secretariat Officer and reported to each Audit Committee meeting. The risk register template is attached to this policy document.

5. Project Level Risk Management

In addition to :

- The staged evaluation process for projects that are funded by LWARB, outlined in the section of the Operations Manual entitled “Project Development & Evaluation”; and
- The contracting process outlined in the section of the Operations Manual entitled “Project Contracting”,

LWARB includes a number of monitoring requirements within individual Facilities Agreements. These monitoring requirements include the requirement to submit of quarterly management reports which include (not exhaustive): the financial position of the borrower, financial forecast, construction and operating budget, construction and operating report, notifications regarding changes to the projects progress and potential events of default, confirmation that all financial covenants have been met. LWARB also receives full audited and annotated accounts of the borrower for each accounting reference period together with directors and auditors reports. These monitoring requirements enable LWARB to regularly monitor project progress and associated risks.

Any project risks that are identified are managed by LWARB Officers. Where a significant project risk is identified, the Board will be consulted on the mitigation measures available to LWARB. This might include amendments to the Facilities Agreement or instigating an Event of Default.

6. Roles and Responsibilities

The roles and responsibilities of individuals and groups to implement the strategy are as follows:

Board	<ul style="list-style-type: none"> • Determine strategic approach to risk and set risk appetite • Establish the structure for risk management • Review the high level risks identified and adequacy of associated risk management processes • Manage the organisation in a crisis
Audit Committee	<ul style="list-style-type: none"> • Review and approve the risk management policy and strategy. • Review the content of the risk register and the adequacy of associated risk management arrangements • Approval of internal audit plan, review of findings and approval of recommendations • Approval of external audit Governance Report
Chief Operating Officer	<ul style="list-style-type: none"> • Build risk aware culture • Lead on the day to day implementation of risk management policy • Ensure implementation of risk improvement recommendations
Governance and Secretariat Officer	<ul style="list-style-type: none"> • Develop the risk management policy and keep it up to date • Ensure that the risk management process runs effectively • Maintain the risk register and any other key risk management tools • Identify and report changed circumstances / risks
Internal Audit	<ul style="list-style-type: none"> • Develop a risk based internal audit programme • Audit the risk processes across the organisation • Receive and provide assurance on the management of risk • Report on the efficiency and effectiveness of internal controls
External Audit	<ul style="list-style-type: none"> • Review and report on the risk management processes • Feed into the annual assurance statements and provide an opinion based upon the audit work carried out • Issue guidance and information.
Officers and Board members	<ul style="list-style-type: none"> • Identify opportunities as well as hazards/risks in performing day to day duties • Take appropriate action to take advantage of opportunities or limit the likelihood and impact of risks

