

RISK MANAGEMENT POLICY

1. The VTS approach to managing risks

1.1 The overriding objective of Risk Management within the VTS is to provide the organisation with the means to protect itself from the adverse effects of risk and to facilitate progress with meeting its organisational aims. Risk Management will assist the organisation to prioritise in its planning and activity, within the resources available to it. The Valuation Tribunal Service (VTS) views risk as a balance between opportunity for gain and opportunity for loss and accepts that some degree of risk is inevitable, being a normal part of the operation of the organisation.

1.2 The VTS will aim to ensure that the exposure to all forms of adverse risk is kept within tolerable limits and to achieve this, the VTS Board and the Executive Management Team will give full consideration to risk in its strategic planning and the management of all aspects of operations. The VTS will aim to put measures in place to consistently identify and quantify the range of risks that the VTS may be exposed to, and to propose the actions to be taken or the measurements to be put in place to mitigate risk..

1.3 Where practicable to do so, the VTS Board and Executive Management Team will decide what degree or level of risk is appropriate to the organisation as a whole. Decisions on risk levels will be communicated to those responsible for managing risks or risk areas.

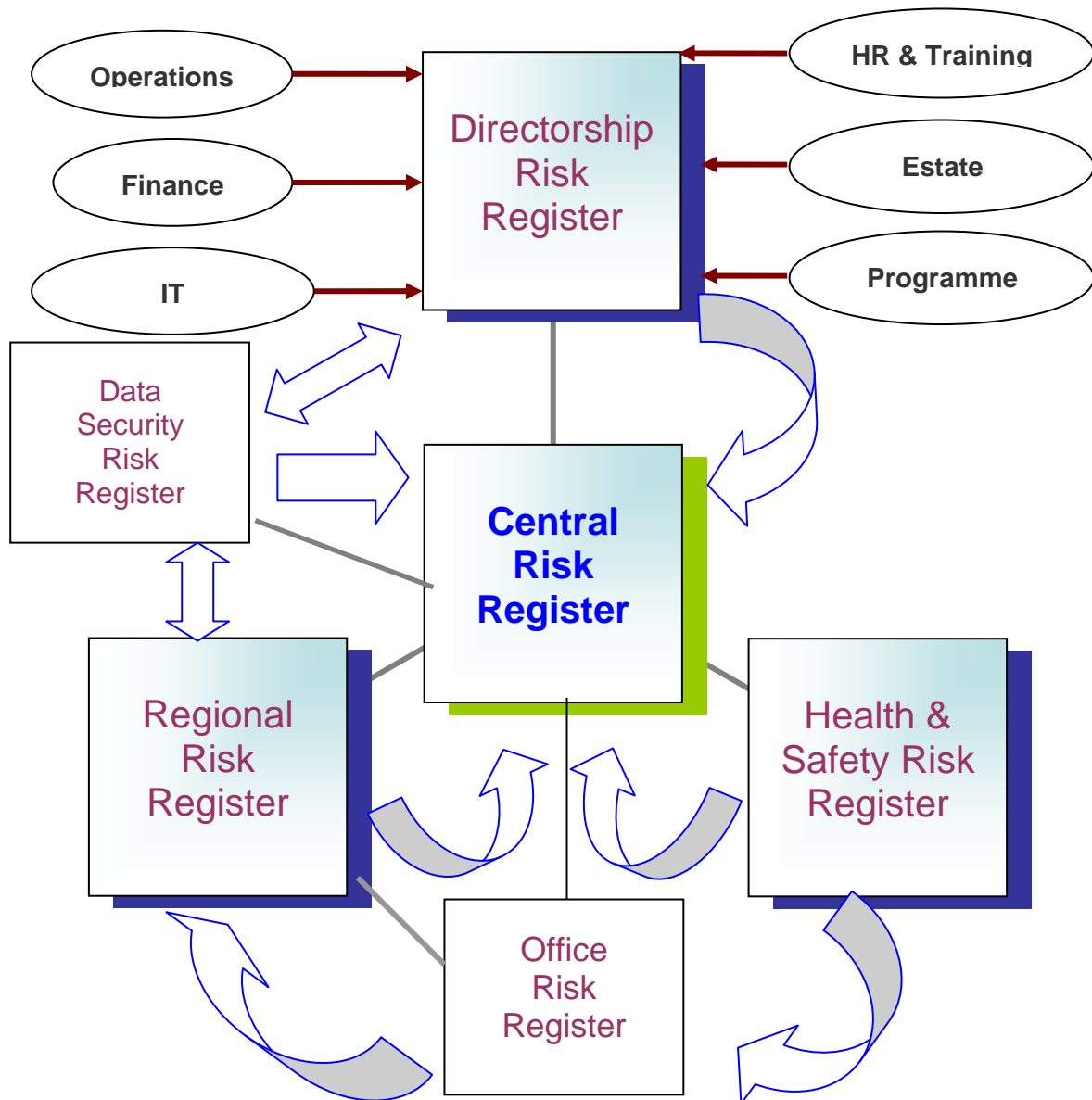
1.4 The VTS maintains different levels of risk registers:

- The Central VTS Risk Register - records the high level risks which will adversely or beneficially affect the VTS's ability to achieve its strategic and business objectives identified in the VTS's Corporate and Business Plans. This risk register will take account of all risks identified in other risk registers, reflecting whether or not they should be escalated to a higher level.
- 'Directorship' Risk Registers – records the threats or possibility that an action or event will adversely or beneficially affect 'their' specific area risks. This risk register will consider operational and strategic risks in the attainment of objectives for that particular directorship. These Risk registers are considered by the Executive Management Team (EMT) where decisions are taken whether identified risks should be escalated to the Central Risk Register.
- Regional Manager Risk Registers – records the threats and possibilities that will adversely or beneficially affect operational effectiveness within the region. These risk registers are provided to the Corporate Director and are discussed by the EMT who through discussion will determine whether any identified risks are escalated to the Central Risk Register.
- Office Risk Register – records threats or possibilities that would adversely affect the administration and/or operation carried out by that office (e.g. staffing issues).

1.5 In addition to the above risk registers, there is a health and safety risk register which builds on risk registers maintained for each region and a Data Security Register maintained by the Security Information Responsible Officer (SIRO) that records data handling and security risks..

2. Relationship between risk registers

2.1 The diagram below shows how each of the various risk registers feed into the VTS's Central Risk Register.



3. Goals of risk management

3.1 We recognise that some level of risk will always exist and that taking risks in a controlled manner is fundamental to innovation and developing a 'can do' culture which may sometimes be required to achieve objectives. However, by identifying the risk exposure, capacity and appetite, we will be better able to prioritise objectives and effective utilisation of resources. The organisational focus is on being risk aware and understanding the risks to objectives.

3.2 It is recognised that some risks represent an opportunity, which should be exploited, in a measured, calculated, informed and monitored fashion. The exact nature of the exploitation needs careful determination.

3.3 Risk management is used to:

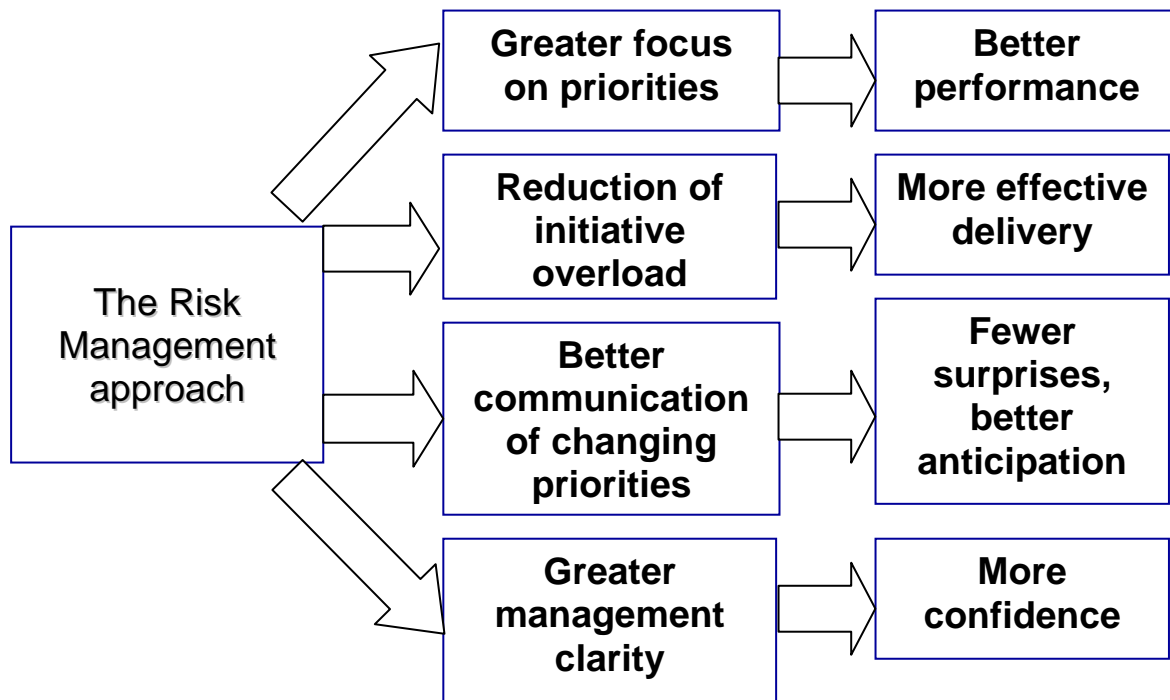
- Take a proactive approach, anticipating and influencing events before they happen.
- Take a balanced view of opportunities and threats.
- Facilitate better informed and evidenced decision making.
- Improve contingency planning.
- Help achievement of demanding performance targets.
- Help establishment and maintenance of appropriate corporate ethics.
- Increase efficiency and improved use of resources.

4. Embedding risk management

4.1 It is recognised that risk management is not an exact science. While the outcomes of some risks can be measured in quantitative terms, our approach combines objectivity with our subjective understanding of our business and its objectives to take a holistic view. In this way we will embed risk management throughout our business to inform decision making and resource allocation at strategic and operational levels.

4.2 We encourage all staff to take responsibility for the risks in their day-to-day work and promote innovation and creative thinking, not only in the risk response options, but in all business activities.

4.3 The business benefits intended to flow from embedding risk management are:



5. Risk Definitions

5.1 Risk Assessment: A structured process of reviewing and ranking risks by applying a standard scoring system to them (comprising scoring of likelihood, severity and magnitude), to enable effective comparison of the significance of different risks.

5.2 Risk Register: A comprehensive record and register of the risks identified. The register also sets out a scored assessment of the magnitude of the risks and broadly describes the existing controls and those further controls, which should be implemented.

5.3 Risks are viewed as actions or events that could help or hinder the organisation in achieving objectives. Risks are defined as the uncertainty of outcome, whether positive opportunity or negative threat, of actions and events and are assessed and managed in terms of the likelihood of something happening and the impact it would have on our prospects of achieving our business objectives if it did happen. Exposure to a risk is the consequence, as a combination of likelihood and impact, for our business if a specific risk is realised – this could be either a missed opportunity or a threat crystallising.

5.4 Risk Management/Control: A structured approach to handling risks, which seeks to reduce the likelihood of occurrence or severity of impact, whilst causing minimal restrictions on achieving organisational aims.

5.5 Risk Management Action Plan (further actions planned): A plan for identifying and tracking the implementation of specific actions to address matters identified in the risk register. It identifies actions, 'ownership' of a risk and timescales for completion. In the current VTS format, the action plan is incorporated into the risk register.

5.6 Inherent risks are the exposures arising from a specific risk before any action is taken to manage it.

5.7 Residual risks are the exposures arising from a specific risk after action has been implemented to manage it and making the assumption that the action is effective.

5.8 Target Date: The date for when action plans are to be implemented and ensures that the actions will be addressed rather than sitting in limbo.

5.9 Risk Owner: This represents the person who takes the lead responsibility for addressing the risk in question. Whilst they may assign specific actions to others, they must ensure that the risk is appropriately dealt with.

5.10 Date for reassessment of residual risk: The date for re-evaluating the risk and the controls in place

6. Roles and responsibilities for risk management

6.1 The VTS Board:

- Receives a risk management report in each quarter, reviewing the VTS's Central Risk's exposures and risk controls during that period and highlighting developing issues for the next period.
- Considers risk in key decision making.
- Gives consideration to a statement on internal control.

6.2 The Executive Management Team will ensure that:

- Consideration is given to relevant external risks, i.e. those over which the VTS has little direct control.
- All valid risk information is taken into account when escalating risks to the Central Risk Register.
- The Central Risk Register is updated when new risks are identified or when there are appreciable changes in previously recognised risks.
- The Central Risk Register is reviewed on at least a quarterly basis.
- Financial and other resource implications are fully considered in treating a risk.
- Information in the Central Risk Register is considered in all strategic business planning.
- Information on VTS risks is provided to staff where appropriate.
- Suitable controls and responses to risks will be applied.
- Reporting on risk to external bodies is made.
- The risk management strategy evolves to meet the developing needs of the VTS.

6.3 Specific responsibilities for the risk management process are:

- **The VTS Board**

The VTS Board has overall responsibility for the development, implementation and review of the risk management strategy and the overview of the effective management of risk by staff, and how such risks are linked to budgets. The Board considers an appropriate evaluation and commentary on control of risk in the Statement of Internal Control as part of the Annual Report and Accounts.

- **The Audit Committee**

The Audit Committee has the responsibility of ensuring that processes in place are effective and that it is well informed about the VTS approach to risk management by:

- Making risk management a standing item on their Committee agenda.
- Asking to see the Central Risk Register periodically, say annually.

- Ensuring internal audit conduct reviews of the risk management arrangement and considering risk management in detail when internal auditors have reviewed the area concerned.
- Asking the Chief Executive, Directors and senior managers to explain aspects of risk management periodically.
- Asking risk owners to make a presentation to the Committee about 'their' particular risks.
- Ensuring that management uses risk management in a positive way (e.g. to help assess opportunities arising).
- Test the effectiveness of the risk management arrangements in place by questioning the effectiveness of mitigating controls.

- **Chief Executive**

The Chief Executive takes responsibility for the management of risk within the VTS and will maintain awareness of the key risks facing the organisation and ensure that these are taken into account in strategic planning.

- **Corporate Director**

The Corporate Director takes responsibility for the design of the VTS risk management process and for ensuring that it is suitable for the needs of the organisation. He will monitor the functioning of the process and where appropriate take action to ensure that the system operates as intended. Where significant risks are identified, he will liaise with the Executive Management Team and staff to ensure that appropriate control action is taken.

- **Resource Director**

The Resource Director is responsible for ensuring that the Risk Register is an item for review at the Audit Committee meeting held every quarter. Any recommendations or comments made by either the Audit Committee or the VTS Internal Auditors is relayed by the Resource Director to the appropriate managers for action and monitoring.

- **Directors**

Directors are responsible for identifying the key business risks relevant to the strategic and business objectives. They must ensure that risks relating to their areas of responsibility are identified, assessed and maintained within acceptable limits, prioritising controls. They are responsible for submitting their analysis of their area risk register(s) to the Corporate Director.

- **Head Office Managers**

Managers are responsible for ensuring that risks relating to their areas of responsibility are identified, assessed and maintained within acceptable limits. They are responsible for monitoring their risks and for regularly reviewing them and submitting their analysis of risks to their respective Director.

- **Regional Managers**

Regional Managers are responsible for ensuring that risks relating to their areas are identified, assessed and maintained in line with the VTS approach and that regular reporting on risk is made to the Corporate Director (the Resource Director in his absence). They are also responsible for controlling the magnitude of these risks and maintaining them within acceptable limits, identifying appropriate controls. Regional Risk Registers are built up from office risk registers. The top five local office risks are considered at Regional Management Team meetings and once controls are discussed and identified, these feature in the Regional Risk Register for escalation to the Corporate Director.

- **Other staff**

All other staff are responsible for supporting the managers in identifying risks and in taking appropriate action to mitigate them. In addition, all staff must be proactive in working with their line managers to:

- Compile suitable action plans to ensure risks are managed.
- Revisit and review risk identification, assessment and control on an ongoing basis.
- Record all findings in a location/function specific risk register in the VTS format (Appendix A).
- Provide current versions of location/function specific risk registers to the Corporate Director at defined dates in every quarter.
- Report on any significant developments in risk exposure and risk management to the Executive Management Team, through the Corporate Director (in his absence the Resource Director) as soon as practicable.

7. Stages in risk management

We will:

- Identify risks in relation to the achievement of our objectives. This applies equally to the Board (including the VTE President's involvement) in identifying strategic risks and to a staff team identifying operational risks.
- Assess their relative likelihood and impact, both in terms of inherent and residual risk, specifically reviewing the effectiveness and proportionality of actions already being taken to manage inherent risks.
- Address the residual risks identified, taking into account our risk appetite.
- Review and report on risks to ensure that our register and approach is up to date, to gain assurance that responses are effective, and to identify where further action is needed.

7.1 Identifying risks

We involve the Board (including the VTE President) and all staff in identifying and defining risks which are recorded in the Central Risk Register. This inclusive approach helps to establish a common understanding and improves our capability to respond appropriately. The following guidelines are used when identifying and defining risks:

- Risks should be related to the corporate objectives as set out in the business plan (including as cascaded into team objectives).
- Risks should be identified at a level where a specific impact can be identified and a specific action(s) can be identified to address the risk.
- Identification of risks should form an integral part of proposals and business cases and other documents for decision.

7.2 The Executive Management Team will undertake a review of all corporate risks every quarter, which involves reviewing various risk registers, identifying new risks, changes in existing risks and the identification of risks that are no longer relevant. Each part of the business reviews its operational activities and contributes to the diagnosis of the risks it faces. Any exposure to risk that is outside the risk appetite is considered for escalation to the Central Risk Register by the Executive management Team.

7.3 All Staff have a corporate responsibility to identify and monitor risks within their area of responsibility and to bring risks to the attention of their line managers. It is the line managers' responsibility to put controls in place and to gain assurance that risks in their area of control are being monitored adequately. Directors, Regional Managers and head office managers are responsible for escalating risks that could impact on the achievement of business objectives to the Corporate Director. Regular discussion about risks should take place between line managers and staff to ensure that risk management becomes a routine activity in the same way as performance management.

7.4 All the risk registers will be live documents with opportunities to update it on an ongoing basis, together with formal reviews.

8. Responsible risk owners

8.1 Once identified, each risk is assigned to an owner who has responsibility for ensuring that the risk is managed proactively and monitored over time, and reported upon in accordance with this policy. Both this 'risk owner' and a date for reassessment of the residual risk is recorded in the relevant risk register.

9. Tackling risks

9.1 The response to individual risks will be determined by our risk capacity and risk appetite. A process has been adopted whereby:

- We separately consider the likelihood and impact of each risk.
- We distinguish between inherent and residual risks – and thus assess each risk twice.

- We regularly review the effectiveness of controls applied to inherent risks, including where those actions are unsuccessful or only partially successful; and the consequent level of residual risk. Where a risk score is high and unchanging over a period of time, it will be highlighted to the Board.
- We record the assessment in a way that facilitates monitoring and the identification of risk priorities.
- We report evidence of how we are actively managing risks.

9.2 For each risk identified, an assessment is made of the likelihood of it occurring and the relative impact if it does. To facilitate consistency of assessment and relative scoring, the levels of likelihood and impact in terms of our business have been defined as follows:

10. Definition of ‘likelihood’

10.1 ‘Likelihood’ has been described within five levels, focussing on both the chance and frequency of occurrence.

5	Very High	Has at least a 75% chance of occurring at least once within the next 12 months
4	High	Has at least a 50% chance of occurring at least once within the next 12 months
3	Medium	Has at least a 50% chance of occurring at least once within the next 3 years
2	Low	Has at least a 25% chance of occurring at least once in the next 3 years
1	Very Low	Less than 25% chance of occurring in the next 3 years

11. Definition of ‘impact’

11.1 ‘Impact’ has been defined within four different levels. Any or all of these impacts determine the level of assessment and in all cases the highest level of impact will determine the score.

		Financial impact	Service delivery	Reputation & credibility
4	Critical	20% or more of budget <u>or</u> Breach of Departmental Expenditure Limit	50% or more of customer service KPIs missed by >25%	Intervention by CLG or NAO <u>or</u> Non-routine summoning of Accounting Officer by Select Committee
3	Substantial	>10% but <20% of budget.	>25% of customer service KPIs missed by >10%	Published expression of dissatisfaction with VTS/VTE by one or more of CLG, NAO, AJTC, VOA, billing authority
2	Moderate	5%-10% of budget.	>10% of customer service KPIs missed by >10%	Written expression of dissatisfaction with VTS/VTE by one or more of CLG, NAO, AJTC, VOA, billing authority
1	Minor	<5% of budget	<10% of customer service KPIs missed by >10%	Oral concerns expressed to VTS officers or VTE President by one or more of CLG, NAO, AJTC, VOA, billing authority

12. Reducing or minimising risks

12.1 Risks are minimised through effective controls. Controls in place will be reviewed by the EMT and the Board to ensure that they do actually minimise risks to an appropriate level.

13. Categorisation of risk control

13.1 'Control' consists of any action, opportunity, procedure or operation undertaken to ensure that the objectives are met. This control is designed as a response to a risk exposure and the purpose is to reduce the uncertainty surrounding outcomes. In addressing residual risks, the four "Ts" are used to clarify our approach:

- **Tolerate:** the exposure may be tolerable without any further action being taken. Even if it is not tolerable, the ability to do anything about some risks may be limited, or the cost of taking any action may be disproportionate to the potential benefit gained. In these cases the response may be to tolerate the existing level of risk. This option can be supplemented by contingency planning for handling the impacts that will arise if the risk is realised.
- **Treat:** the majority of risks should be treatable, i.e. actions can be taken to eliminate, reduce, control or modify them. Treatment should be identified to contain the risk at an acceptable level.
- **Transfer:** risk transfer aims to take responsibility for the risk, risk control and associated losses away from the organisation. This might be done by conventional insurance, or it might be done by paying a third party to take the risk in another way. A particularly good option for mitigating financial risks to assets.
- **Terminate:** some risks are simply not tolerable and where these are identified the activity should be terminated.

14. Overall risk assessment

14.1 An overall risk assessment is obtained by multiplying together the likelihood and impact scores for any risk.

15. Mapping risks

15.1 To aid understanding and interpretation of the VTS' risk profile regarding strategic risks, residual risks are mapped on a risk map by plotting the likelihood against the impact of each risk:

16. Risk appetite

16.1 The risk appetite describes the level of risk the VTS is prepared to accept or tolerate at any particular time should the exposure become a reality after internal control is exercised (i.e. the residual risk). Our risk appetite establishes a boundary and if the residual risk assessment is higher than our risk appetite, further action will be taken to reduce the likelihood and/or impact of the risk occurring. If this is not possible, contingency plans will be put in place. The colour-coded risk map below identifies the boundaries set for the VTS's risk appetite.

IMPACT	4					
	3					
	2					
	1					
		1	2	3	4	5
		LIKELIHOOD				

16.2 The reporting process for the categorised risks is as follows:

Appetite	Risk management: actions and reporting
Immediate corrective action is required	The Board expects the Executive Management Team (EMT) to be actively managing on continuous basis. The Board will receive report at least once per VTS meeting cycle.
Acceptable in short term – monitor and improve progressively	The Board expects risks in this area to be actively monitored on continual basis. The Board will receive prompt reports on exception basis, and positive assurance report six-monthly.
Acceptable if actively monitored	The Board is content that day to day management of risk is delegated by the EMT to a named individual, but expects the EMT to be receiving prompt exception reports plus routine positive assurance reports every quarter.
Acceptable subject to routine monitoring	The Board is content that day to day management of risk is delegated by the EMT to a named individual, and that reporting to the EMT is on exception-only basis plus annual 'stewardship'/assurance reporting.

17. Role of Internal Audit

17.1 Internal audit is responsible for auditing all elements of the risk management system, including risk registers and action plans. This auditing will verify compliance with the requirements of the risk management system but will also explore the actual processes used to identify, assess and action risks. In this way auditing should attempt to verify that all risks have been identified and assessed in a manner which is intended by the risk management system and actions are appropriate to reach the objective required in managing the risk (including the appropriateness of responsibilities and timescales for action).

FORMAT OF RISK REGISTER

Strategic objective ref	Description of Risk	Inherent assessment			Controls already in place	Residual assessment			Further actions planned	Target date	Risk Owner	Date for reassessment of residual risk
		I	L	I x L		I	L	I x L				