

# Effectively managing our risk

**In this section we explain how the Board has reviewed the effectiveness of Harworth’s risk management and internal control system. We present our approach to risk, including the further improvements we have made to our risk management system, and set out the Board’s analysis of the Group’s principal risks and uncertainties informed by our growth strategy.**

At the beginning of the year, with oversight from the Audit Committee and the Board, management undertook a comprehensive review of the Group’s risk management and internal controls systems with the assistance of external consultants.

## Role of the Board and Audit Committee

The Board has overall responsibility for determining the risk appetite of the Group, for monitoring the risk profile of the business and ensuring that measures and controls are in place to manage risk effectively, with its focus being on principal and emerging risks. The Audit Committee supports the Board in the management of risk and is responsible for reviewing the effectiveness of risk management and internal control processes and assurance activity.

## Management of risks

At an operational level, ownership of risks is assigned to members of the Senior Executive and managed on a day-to-day basis by risk champions from across the business. The Group Leadership Committee (GLC) has responsibility for identifying specific risks, implementing and monitoring risk responses and ensuring operating effectiveness of key controls. Every month, the profile of our principal and operational risks is reported to the GLC and a risk workshop is hosted to undertake a “deep dive” into one or more risks, led by the risk owners and champions.

We recognise that not all risks can be eliminated, or sufficiently mitigated at an acceptable cost, and that there are some risks which, given the nature of Harworth’s business and the track record and experience of the team, we are prepared to accept. Our focus is to ensure there is an awareness of risk throughout the organisation with an effective framework in place to respond effectively to changes in risk profile. Our insurance programme also plays an important role where we are unable to eliminate certain risks.

## Group Risk and Assurance Map

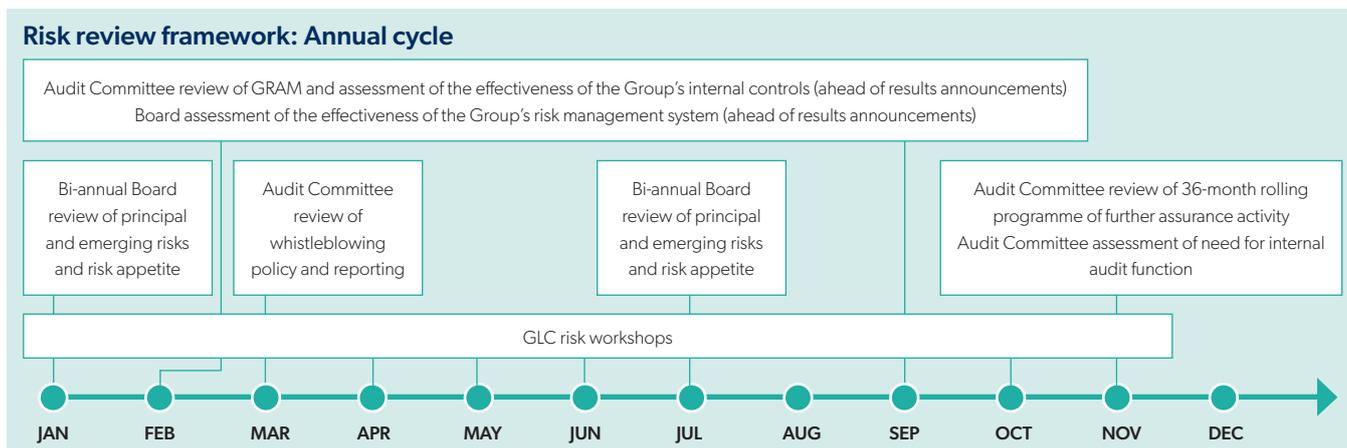
Central to monitoring the effectiveness of our risk management system is our new Group Risk and Assurance Map (GRAM), which has replaced the Group Risk Register. The GRAM is a register of the Group’s principal and operational risks grouped into ten risk categories each with a series of sub-risks (see page 116 of the Audit Committee Report for the full list of risk categories and sub-risks). The GRAM is a “living” tool and reviewed by risk owners and champions (continuously), the GLC (monthly), and the Audit Committee (biannually). Each sub-risk has its own risk and assurance map which details:

- the definition of and commentary on each risk;
- inherent risk, residual risk and risk appetite scores to evaluate the changing status of each risk;
- mitigation measures that have either been implemented, are in progress or planned;
- key risk indicators used to measure the profile of each risk;
- established Board assurance activity; and
- management’s proposals for further assurance activity, which is used by the Audit Committee to approve a 36-month rolling programme of further assurance (see page 115 of the Audit Committee report).

The profile of our principal risks is reported to the Board monthly and the Board undertakes a detailed review of our principal risks and its risk appetite every six months.

Following a detailed review undertaken by the Audit Committee ahead of publication of this report, the Board is confident that the Group’s risk management and internal controls systems, including all material financial, operational and compliance controls, are effective.

The full risk management system pursuant to which risks are monitored and managed throughout the year is summarised below.



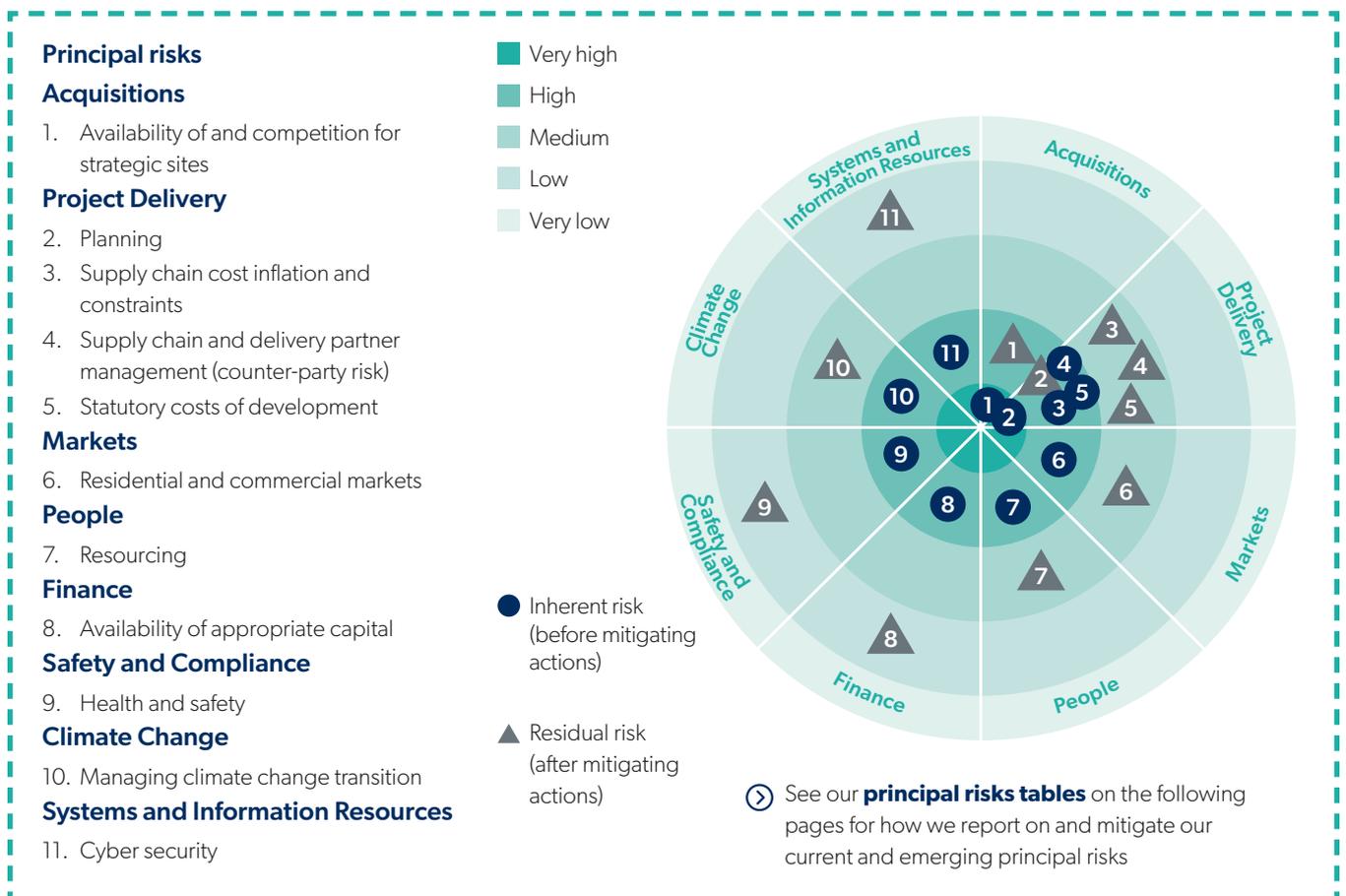


### Principal risks and uncertainties

The Board is responsible for identifying, setting the risk appetite for, and evaluating the Group’s principal risks, being those risks that could threaten the delivery of our strategy, our business model, future performance, solvency or liquidity and/or reputation. Over the last 12 months, the Board has identified through a series of workshops a refreshed set of principal risks and uncertainties, informed by the strategy.

The risk heat map below illustrates the positioning of our principal risks before and after mitigating actions. A detailed analysis of each principal risk is set out thereafter, explaining our key risk mitigation actions, further measures planned for the upcoming year, change in residual risk status in the year and how each risk relates to our strategic pillars.

The Senior Executive and Board are monitoring closely the conflict in Ukraine, its macro-economic implications and potential impacts on the business. The profile of our principal risks remains subject to very regular review at an operational level, both in the context of the Ukraine/Russia conflict, and more widely.



# Effectively managing our risk continued

## Strategic link key

**1** Increasing direct development of industrial & logistics stock

**2** Accelerating sales and broadening the range of our residential products

**3** Growing our strategic land portfolio and land promotion activities

**4** Repositioning our Investment Portfolio to modern Grade A

 The Harworth Way

 Group Financial Targets

## Risk 1

### Commentary

#### Availability of and competition for strategic sites

Current risk

In the current strong market for industrial & logistics and residential sites, competition for acquisitions remains a key risk as acquiring new sites is fundamental to maintaining target returns and driving growth consistent with our strategy. Having said that, we have a landbank of around 14,000 acres with a pipeline of 28.2m sq. ft (7.3m sq. ft consented) of industrial space and 30,804 plots (of which 9,978 were consented), which means we can be patient if hurdle return aspirations cannot be met in the current market.

Description	Mitigation	Additional measures planned for 2022
Failure to acquire strategic land at appropriate prices due to constrained supply or competition	<ul style="list-style-type: none"> <li>Extensive external stakeholder engagement to identify opportunities supported by internal co-ordination via regular internal acquisitions meetings</li> <li>As part of the strategy review, we commissioned reports from external consultants to inform our acquisition strategy</li> <li>We seek input from our valuers prior to acquisition to inform pricing</li> <li>Via our portfolio strategy, we manage the timing of acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>Further development of acquisition strategy</li> <li>Refresh stakeholder maps</li> <li>Development of Customer Relationship Management system</li> <li>Additional acquisitions resource</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b></p> <p><b>3, </b></p>

## Risk 2

### Commentary

#### Planning

Current and emerging risk

Changes to the planning regime have the potential to impact adversely on promotion activity and financial returns. There is greater uncertainty since the Government's flagship planning reforms have been put on hold.

Description	Mitigation	Additional measures planned for 2022
Planning promotion risk including uncertainty around local and national changes to planning regime with potential for adverse effect on promotion activity	<ul style="list-style-type: none"> <li>We regularly review greenbelt exposure at a portfolio level</li> <li>Through key stakeholder groups, we respond to emerging planning policy</li> <li>Stakeholder mapping is undertaken at a project level</li> <li>Local political advisers are appointed on individual sites, where appropriate</li> <li>Strong relationships with local planning authorities and key local stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Refresh stakeholder maps</li> <li>Develop a Customer Relationship Management ("CRM") system</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b></p> <p><b>1,2,3, </b></p>

Change in residual risk in the year



**Risk 3**

**Commentary**

**Supply chain cost inflation and constraints**

Both we and our customers are experiencing supply chain challenges including shortages in raw materials and labour constraints.

Current risk

Description	Mitigation	Additional measures planned for 2022
Supply chain pricing pressures and constraints (affecting both labour and raw materials) resulting in development cost increases and delays	<ul style="list-style-type: none"> <li>Our procurement approach is considered early in project planning</li> <li>We undertake rigorous tender processes</li> <li>We have established a suite of legal precedents to promote consistency in land remediation and direct development procurement</li> <li>We utilise market intelligence regarding contractors' commitments and workload</li> </ul>	<ul style="list-style-type: none"> <li>Additional direct development and technical resource</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b> 1,2, </p>

**Risk 4**

**Commentary**

**Supply chain and delivery partner management (counter-party risk)**

Our strategy to increase direct development activity and enter the Build to Rent market increases delivery and execution risk within the business, resulting in a growing need to select, monitor and manage counterparties effectively.

Current and emerging risk

Description	Mitigation	Additional measures planned for 2022
Increase in exposure to supply chain, delivery and investment partners leading to increased risk of disputes with and/or default by and/or insolvency of counterparties	<ul style="list-style-type: none"> <li>Our procurement approach is considered early in project planning</li> <li>A consistent process is followed for "onboarding" suppliers</li> <li>We have established a suite of legal precedents to promote consistency in land remediation and direct development procurement</li> <li>Our central technical team monitors contractor "concentration risk" and promotes consistencies and knowledge-sharing across our portfolio</li> </ul>	<ul style="list-style-type: none"> <li>Upgrades to our supplier onboarding process, extending to all counterparties, and implementation of improvements to ongoing monitoring regime</li> <li>Explore viability of framework agreements with suppliers who undertake works at volume and/or scale</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b> 1,2,  </p>

# Effectively managing our risk continued

## Strategic link key

<p><b>1</b> Increasing direct development of industrial &amp; logistics stock</p> <p> The Harworth Way</p>	<p><b>2</b> Accelerating sales and broadening the range of our residential products</p> <p> Group Financial Targets</p>	<p><b>3</b> Growing our strategic land portfolio and land promotion activities</p>	<p><b>4</b> Repositioning our Investment Portfolio to modern Grade A</p>
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## Risk 5

### Commentary

### Statutory costs of development

Current and emerging risk

Short-term higher risk areas are focused on biodiversity net gains, now mandated via the Environment Act 2021, changes to Part L of the Building Regulations and the recently implemented residential property developer tax. On the horizon are planning reforms and the future Homes Standard.

Description	Mitigation	Additional measures planned for 2022
Legislative reforms which do or may impose a tax or levy on development, or have the effect of levying an additional cost on development	<ul style="list-style-type: none"> <li>The known and potential impact of changes to the Building Regulations, implementation of biodiversity net gain requirements and planning reforms is modelled into project appraisals ahead of acquisition</li> <li>Through key stakeholder groups, we respond to emerging policy</li> <li>Initial modelling suggests limited direct impact from the residential property developer tax at this stage</li> </ul>	<ul style="list-style-type: none"> <li>Enhanced horizon scanning regime</li> <li>Ongoing work to determine how we can best address the challenges and capitalise on the opportunities arising from mandated biodiversity net gain requirements</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b> <b>1,2,4,</b>  </p>

## Risk 6

### Commentary

### Residential and commercial markets

Current risk

We continue to focus on both residential and industrial & logistics markets. The Group is currently operating in a very buoyant commercial market reflecting strong demand in the industrial & logistics sector.

The residential market also performed well through 2021, with strong house prices and housing sales volumes nationally including on our sites.

Description	Mitigation	Additional measures planned for 2022
Downturn in industrial & logistics and/or residential market conditions leading to falls in property values	<ul style="list-style-type: none"> <li>Regular feedback is received from advisers on the status of residential and industrial &amp; logistics markets in our core regions to supplement generic market commentary</li> <li>Pursuant to our strategy we are working to take full advantage of current market conditions and mitigate a potential downturn by accelerating residential sales, introducing new products at our residential sites, repositioning our Investment Portfolio and increasing the quantum and speed of direct development (but with controlled exposure to speculative development)</li> <li>Appointed a Head of Mixed Tenure, a Development Director, a Director of Strategy, Investment &amp; Business Development, and we are recruiting additional resource</li> </ul>	<ul style="list-style-type: none"> <li>Roll-out of the first wave of our Build to Rent product</li> <li>Repositioning of Investment Portfolio including selective disposal of certain legacy assets.</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b> <b>1,2,4,</b> </p>

## Change in residual risk in the year



## Risk 7

## Commentary

**Resourcing**

Current risk

Resource stretch, in particular exacerbated by the work implications of Covid-19 and the current challenging labour market, is currently one of the biggest concerns amongst the Board and Senior Executive as the Group must be able to attract and retain the right people to deliver the strategy. Significant work has been, and continues to be, undertaken on recruitment, employee engagement and well-being initiatives.

**Description**

Insufficient and/or inappropriate resources, including overworked staff and/or inability to retain and/or attract necessary talent

**Mitigation**

- Development of a people strategy to complement our business strategy. External benchmarking of organisational design, recruitment and retention, competitiveness of reward, health and well-being
- We continue to progress recruitment for replacement and new roles and succession planning
- New maternity, paternity, adoption and shared parental leave policies
- Introduced hybrid working
- Widened share ownership through the Restricted Share Plan and Share Incentive Plan
- Alignment of Group and personal objectives on delivery of strategy

**Additional measures planned for 2022**

- Continued implementation of people strategy including expansion of talent development programme

**Change in residual risk in the year**



**Link to strategy**

**1,2,3,4**

## Risk 8

## Commentary

**Availability of appropriate capital**

Current risk

There is a need to match capital to the operational and project specific needs of the business, accommodating the increase in pace and scale of activity, particularly development, under our strategy. In 2021 we engaged extensively with existing and prospective funders culminating in the entering into of a new senior debt facility in early 2022.

**Description**

Inability to access appropriate equity and/or debt funding to support the strategy

**Mitigation**

- Development of a financing strategy to complement our business strategy, supported by external consultants
- Informed by that strategy, we have entered into a new senior debt facility with a resulting £50m increase to £200m.
- This is supplemented by accessing project specific funding where relevant.
- We continue to pursue and unlock grant funding

**Additional measures planned for 2022**

- Continue to identify scheme specific funding
- The prospect of raising additional equity, if required to pursue specific development opportunities, is kept under consideration

**Change in residual risk in the year**



**Link to strategy**

**1,2,3,4**

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## Risk 9

### Commentary

### Health and safety

Current risk

The health, safety and welfare of people involved in or affected by Harworth’s activities are of prime importance. This risk ranges from the health and safety of visitors and workers on our sites, and trespassers (given the nature of our sites), through to the health and safety of employees and visitors in an office environment. Full compliance with all relevant legislation is the minimum acceptable standard but we and our partners aim to achieve the highest possible standards of good practice.

Description	Mitigation	Additional measures planned for 2022
Incident causing injury and/or death resulting in liability, penalties and/or reputational damage	<ul style="list-style-type: none"> <li>• Appropriate policies are in place, including a Safety, Health and Environmental Management System (SHEMS) Policy and an Employee Health and Safety Policy</li> <li>• A Risk and Compliance (R&amp;C) function has been established with a focused remit on health and safety and environmental assurance</li> <li>• The R&amp;C team undertakes a rigorous site inspection regime and maintains a sites risk register through which it monitors and reports the risk health and safety status of each of our sites.</li> <li>• We have a panel of health and safety consultants who support our project delivery</li> <li>• Health, safety and environment management meetings are held quarterly and attended by representatives from all operational divisions</li> <li>• We host compulsory health and safety training for all employees every two years, supplemented by an annual schedule of mandatory online learning</li> <li>• We have a programme of health and wellbeing initiatives for employees, including access to internal physical and mental health first aiders and an external Employee Assistance Programme</li> </ul>	<ul style="list-style-type: none"> <li>• Transition to a cloud-based health, safety and environment management platform</li> <li>• Review the effectiveness of our health and safety consultant panel arrangements</li> <li>• Additional R&amp;C departmental resource</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b> </p>

Change in residual risk in the year



Risk 10

Commentary

**Managing climate change transition**

Current and emerging risk

The climate change agenda has a wide-ranging impact on the Group, from our investment case to shareholders and reporting to the stock market through to operational activity, including the need to embed environmental sustainability into all our projects.

Description	Mitigation	Additional measures planned for 2022
Failure to manage transitional risks associated with climate change covering both operational activity and reporting	<ul style="list-style-type: none"> <li>We have established an ESG Board Committee (see pages 118 to 119) to oversee formulation and delivery of our ESG strategy, target-setting and reporting</li> <li>At an operational level, the Committee is supported by the ESG Steering Group, comprising members from every team across the business</li> <li>External consultants are appointed to advise on ESG strategy formulation, implementation and reporting</li> <li>Initial measures and short-term and long-term targets have been developed for all areas of the ESG strategy</li> <li>We have identified a decarbonisation target and initial measures to achieve zero carbon in Scope 1, 2 and some Scope 3 emissions</li> <li>We have joined the UK Green Building Council which facilitates sharing of knowledge and best practice.</li> </ul>	<ul style="list-style-type: none"> <li>Embed fully environmental and social analysis into our project appraisals and approvals process</li> <li>Continue to improve capture and analysis of environmental and social data and to enhance and extend our climate change disclosures</li> <li>Appointment of a Director of Sustainability, reporting to the CEO</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b> 1,2,4, , </p>

Risk 11

Commentary

**Cyber security**

Current risk

Cyber-attacks pose an evolving threat to all businesses and Harworth, like others, is at risk of regular attacks. Strategic and technical measures are in place to monitor and mitigate this risk.

Description	Mitigation	Additional measures planned for 2022
Successful cyber-attack jeopardising business continuity	<ul style="list-style-type: none"> <li>We have an established IT Disaster Recovery Plan which is subject to annual desktop testing</li> <li>We have an external provider for IT support which remains vigilant to the evolving cyber security backdrop and an outsourced Information Security manager</li> <li>We take out cyber risk insurance</li> <li>We undertake phishing simulations, IT system vulnerability scanning and annual penetration testing</li> <li>We have a rolling cyber and information security awareness programme for all employees.</li> </ul>	<ul style="list-style-type: none"> <li>Roll out of a new information security policy set</li> <li>Our IT Disaster Recovery Plan will be incorporated into an updated Business Continuity Plan.</li> </ul>
		<p><b>Change in residual risk in the year</b> </p> <p><b>Link to strategy</b> </p>

The Strategic Report has been approved by the Board of Directors and signed on its behalf by:

**CHRIS BIRCH**

Group General Counsel and Company Secretary  
21 March 2022