

RISK COMMITTEE REPORT CONTINUED

Brexit

The Committee's responsibility was to ensure that management were proactively planning for the risks and challenges which could arise from the Brexit negotiations and the eventual outcome. At each annual strategic review since the referendum decision, the Board as a whole considered potential Brexit scenarios on the Group's five-year strategic plan and long-term viability. In addition, the Committee received regular presentations from senior management on contingency planning for our development projects, management portfolio, investor relations and other matters. An overview of how we are managing Brexit-related risks is on pages 49, 50 and 51.

During the year, the Audit Committee Chair received a letter from the FRC which detailed the critical actions that businesses should be addressing in preparation for Brexit. Management reported to both the Audit Committee and Risk Committee on these matters, and the Committees were assured they were being sufficiently managed.

Development risks

Our developments are large, high-value projects with build life cycles which can be up to five years. The success of our development activities is reliant on taking managed and carefully considered risks, which aims to deliver the office space our occupiers desire when it is needed.

Risk tolerance

Like any business, we face a number of risks and uncertainties. An overview of the Group's risk profile, including commentary on Brexit, is available on pages 46 to 49. The Group's risk tolerance is set by the Board and is the level of risk we are willing to accept to achieve our strategic objectives.

Our overall risk tolerance is low and is contained in our Risk Appetite Statement (see the table below for an overview of this statement). This tolerance, alongside our culture, informs how our staff respond to risk. Due to our open and collaborative work style, any potential problem, risk or issue is identified quickly so appropriate action can be taken.

Category	Risk tolerance		
Operational	Operational risks include health and safety risks, continuity of the IT system and retention of the senior management team.	Health and safety	Zero
		IT continuity	Low
		Staff retention	Medium
		Other operational risks	Medium
Financial	Other than market-driven movements that are beyond the Group's immediate control, the Group will not generally accept risks where it is probable that: <ul style="list-style-type: none"> Asset values decline by more than £100m from the Group's annual budget. EPRA profit before tax deviates by more than £5m from the Group's annual budget. Cost overruns occur on capital projects of more than 5% of the approved capex budget. The Group's interest cover ratio will fall to within 20% of the level set in the Group's borrowing covenants. <p>It is recognised that inherent market risk may result in these financial tolerances, in particular the assets limit, being exceeded. The Board accepts this market risk but seeks to manage and mitigate its impact where possible.</p>	REIT status	Low
		Credit rating	Low
		Decrease in asset value (>£100m)	Medium
		Profits (£5m)	Medium
		Cost overruns (>5%)	Medium
		Interest cover (<20%)	Medium
Reputational	The Group has a low tolerance for risk in connection with reputational risk. In particular, this level of risk tolerance relates to any action that could adversely affect the Derwent London brand.	Brand value	Low
Regulatory	The Group's tolerance for regulatory risk arising from statute or the UK Corporate Governance Code and from adherence to 'best practice' guides.	Statutory	Zero
		Governance	Low

Zero: The Board has a zero tolerance to risk-taking

Low: The Board is not willing to take any significant risks

Medium: The Board is willing to take measured risks if they are identified, assessed and controlled

High: The Board is willing to take significant risks

We have classified three development-related risks as principal to the Group – reduced development returns, 'on-site' risk and contractor/subcontractor default – these are discussed in further detail on pages 52 to 53. Due to the actions we have taken, fixing costs and advancing pre-lets, there has been a general reduction in development risks in 2019.

p.52 Risks arising from our development activities

The Risk Committee's role is to gain assurance that risks are being identified, effectively managed and where possible mitigated. At each meeting during 2019, the Risk Committee met with the Head of Development, Richard Baldwin, and members of the development team to discuss the Group's largest development projects and the management of risks.

In addition, the Committee discussed the Brexit contingency plans in place for our developments (see page 49 for further information).

During 2020, the Committee will visit The Featherstone Building development to see first-hand how construction and health and safety risks are managed.