



Regulator of
Social Housing

Board responsibilities for assurance and risk management

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Agenda

Session 1

1. Risk management
2. Stress testing

Session 2

1. The role of the Audit Committee
2. Controls assurance
3. Value for money (VfM)

Risk management

Regulatory expectations

Registered providers shall ensure effective governance arrangements that deliver their aims, objectives and intended outcomes for tenants and potential tenants in an effective, transparent and accountable manner

Governance arrangements shall ensure registered providers ... have **an effective risk management and internal controls assurance framework**

Registered providers shall ensure that they have an appropriate, robust and prudent **business planning, risk and control framework**

Risk management framework



Regulating risk management

Risk is being managed via proper systems and controls and not by chance

Documentation - essential to effective risk management

Risk map/assessment:

- Risk identification – identify risks accurately
- Risk assessment – inherent risk
- Controls – weight of controls
- Risk assessment - residual risk
- Owners
- Further actions
- Assurance

Identifying risks ...

Objective – to travel by train from A to B for a meeting at a certain time

Risk??

Failure to get from A to B on time for the meeting

This is simply the converse of the objective

Being late and missing the meeting

This is a statement of the impact of the risk, not the risk itself

There is no buffet on the train so I get hungry

This does not impact on achievement of the objective

Missing the train causes me to be late and miss the meeting

This is a risk which can be controlled by making sure I allow plenty of time to get to the station

Severe weather prevents the train from running and me from getting to the meeting

This is a risk which I cannot control, but against which I can make a contingency plan

Stress testing and recovery planning

RSH context:

Stress testing - Analysis of the impact of risks, or combinations of risks, on business plans to determine the extent of the economic shocks and/or internal failure the plan can cope with.

Recovery planning – Devising deliverable plans which could be enacted to manage those stress scenarios and allow the business to remain financially viable.

Stress testing and mitigation planning – specific expectations

Registered providers shall **assess, manage and where appropriate address risks** to ensure the long term viability of the registered provider, including ensuring that social housing assets are protected. Registered providers shall do so by ... carrying out **detailed and robust stress testing** against identified risks and **combinations of risks** across a **range of scenarios** and putting appropriate **mitigation strategies** in place as a result

... maintaining a thorough, accurate and up to date record of their assets and liabilities and **particularly those liabilities that may have recourse to social housing assets**

Stress testing and mitigation planning

Stress testing should be an integral part of business planning and risk management

- Stress tests are taxing and consider:
 - internal and external factors, separately and in combination
 - cross group impacts and risks
 - comprehensive asset and liability records information
 - impacts against cash, security and covenants
- Boards are fully involved in stress testing and recovery planning and that reporting is clear and comprehensive
- Recovery / mitigation plans to address scenarios are well developed
- Testing is used to inform risk management, business planning, risk appetite and decision making

Stress testing links with business planning and risk management

- Produces information from which to base decisions about how resources are deployed to deliver strategy
- Informs the materiality of financial risks
- Highlights vulnerabilities and allows orgs to set early warning indicators/triggers for action and golden rules
- Plans in place to ensure org is well ahead with quantified, realistic and actionable mitigations should the worst happen

Take aways - session 1

Be clear about your org's purpose and objectives

Identify and quantify the risks to achieving those objectives

Use stress testing to show how risks might impact on the business and therefore inform controls

Have a well articulated assessment of strategic risks and associated controls

Ask yourselves how you know that risk controls are operating as intended

Be able to evidence good levels of assurance on the design and operation of key internal controls

Have a fresh look at board reporting and be satisfied that quality, coverage and frequency is assisting in managing risks

Link assurance to risks and be sure you're getting enough assurance that risks are being managed

Have processes in place to review risk management and assurance arrangements over time

Controls assurance and the role of the Audit Committee

NHF code of governance 2020 – Control and assurance (Principle 4)

‘4.1 Audit: the board has formal and transparent arrangements ensuring that the organisation is **financially viable** and maintains both a **sound system of internal audit and controls** and an **appropriate relationship with its external auditors**’

- The board can have confidence in the information it receives and there are **robust internal controls**
- There is a committee primarily responsible for audit, and there are arrangements for **effective internal control assurance and audit functions - external audit**

‘4.2 Audit committee: a committee exercises **independent scrutiny and challenge to provide the board with assurance**’

Role of the Audit (and Risk) Committee

- Oversees external audit - an independent examination of the financial accounts of an org, intended to result in a certification of the accuracy of the financial statements.
- Gain assurance that risks, and changes in risk, are being assessed and that appropriate controls to manage risks are in place
- Receive and assess assurances on how well controls are operating and that risks are being managed
- Deliver an overall opinion about risk management and internal controls assurance
- Assess and make recommendations to improve the appropriateness of the risk management and assurance processes

However it should be noted that the Audit Committee should not itself own or manage risks and is, as with internal audit, not a substitute for the proper role of management in managing risk.

Assurance

Confidence / sureness that strategy is being delivered and that risks are being managed within appetite.

Needed on – risks, data, controls, procedures, strategic and operational performance,

Have a plan to achieve it – map the sources of assurance the board gets against key risks

- Management reports / KPIs
- Internal audits and compliance reviews
- Specialist advice (legal, treasury, H&S)
- Inspection outputs (e.g. CQC, regulatory judgements)
- Stress testing outputs and recovery planning

Rightsizing Assurance

- Scope, depth, desk-top, inspection, independent, management

Basis in data – if data is wrong then assurances will be meaningless



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Value for Money



VFM – Required Outcomes

“ Registered providers must:

- a. clearly articulate their strategic objectives
- b. have an approach agreed by their board to achieving value for money in meeting these objectives and demonstrate their delivery of value for money to stakeholders
- c. through their strategic objectives, articulate their strategy for delivering homes that meet a range of needs
- d. ensure that optimal benefit is derived from resources and assets and optimise economy, efficiency and effectiveness in the delivery of their strategic objectives. “

VfM Expectations

Registered providers must demonstrate a robust approach to how they decide to use their finances to delivery strategic objectives, considering:

- Risk appetite, modelling of what can be delivered within it
 - costs and benefits of alternative delivery structures
 - VfM across the whole business
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- Investment in non-social housing activity is contributing to strategic delivery and generating returns commensurate to the risk involved

 - Reporting against RSH and RP's own strategic VfM targets including public reporting that enables stakeholders to understand:
 - comparison on VfM and costs with peers
 - what's been delivered and measurable plans to address any areas of underperformance

RSH VfM Metrics + Provider specific targets

Core Metric	Description
Reinvestment %	Scale of investment in development and capital expenditure on current assets
New supply delivered (SHL and non SHL) %	Units acquired or developed in the year
Gearing %	Proportion of borrowing in relation to size of asset base
Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %	Key indicator for liquidity and investment capacity
Headline social housing cost / unit	Overall SHL costs and main sub-costs per unit
Operating margin (SHL and overall “Group”) %	Operating Surplus, (deficit) / Turnover
Return on capital employed – ROCE %	Surplus / Deficit PLUS disposal of fixed assets PLUS profit / loss JVs compared to total assets
Provider specific measures/targets	Relevant to organisation specific aims/strategy

The strategic context of VfM

Boards increasingly face challenges making decisions regarding their use of assets and resources, including:

- Increasing property compliance standards and requirements – building safety, health and safety, energy efficiency, DHS+...
- Sustaining quality and value of existing stock – customer satisfaction
- Growth – acquiring / building new homes – new customers
- Regeneration, community initiatives, staff ...

VfM board assurance – some suggestions ...

- Be clear on risk appetite and test the business plan to know what can be delivered whilst maintaining viability
- Sound targets which will demonstrate delivery of strategic objectives
- Regular reports on delivery of strategic objectives against agreed budgets and outcomes
- Reports on investments
- Reports on costs vs peers – maybe externally done
- Explanations of high costs / under performance / reporting on plans for approval
- Options for alternative delivery models for the whole business or elements of it
- Annual accounts statement and other public VfM statements

Take aways – session 2

Strategic objectives –
measurable targets,
reporting and
performance

Make VfM a meaningful
part of decision making -
especially investment
decisions

Effective leadership -
drive strategic delivery

Challenge VfM
performance at strategic
and operational levels

Understand business
stream and subsidiary
performance

Understand costs and
how they compare to
peers.

Where costs are
increasing or high -
understand why

Know that the allocated
resources are delivering
what was intended

Transparency /
accountability to board
and stakeholders