



Regulator of  
Social Housing

# Overview of the role of the regulator, how we regulate and the role of the board in setting vision and purpose

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January 2022



# The role of the Regulator

- Why it exists
  - Maintain lender confidence (cost of funding)
  - Protecting the taxpayer
  - Protecting tenants – expanding consumer role
- Ensure that registered providers of social housing are financially viable and properly managed and perform their functions efficiently and economically
- Done via outcome based standards - Regulating the Standards

# How the Regulator Regulates

# The Standards

## Economic – Pro-active

- Governance and Financial Viability
- Value for Money
- Rent

## Consumer – Re-active – but role is changing ...

- Tenant Involvement and Empowerment
- Home
- Tenancy
- Neighbourhood and Community



# Examples of required outcomes from the standards

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 ... protect social housing assets.

Registered providers shall meet all applicable statutory requirements that provide for the health and safety of the occupants ...

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

# Co-regulation

## Board members

- Responsible for ensuring compliance with **all** the regulatory standards
  - communicate, in a timely manner, with the regulator on material issues that relate to non-compliance or potential non-compliance with the standards

## Regulator

- Pro-active role to assess compliance with economic standards
- Reactive role where there has been a breach of a standard which has, or could, cause serious detriment
- Sector publications – Providing analysis and statistical reports

## Tenants

- Opportunities to shape and scrutinise services and to hold boards to account

# Regulating different providers

Different approach for providers which own fewer than 1,000 social housing units

If under 1,000 units:

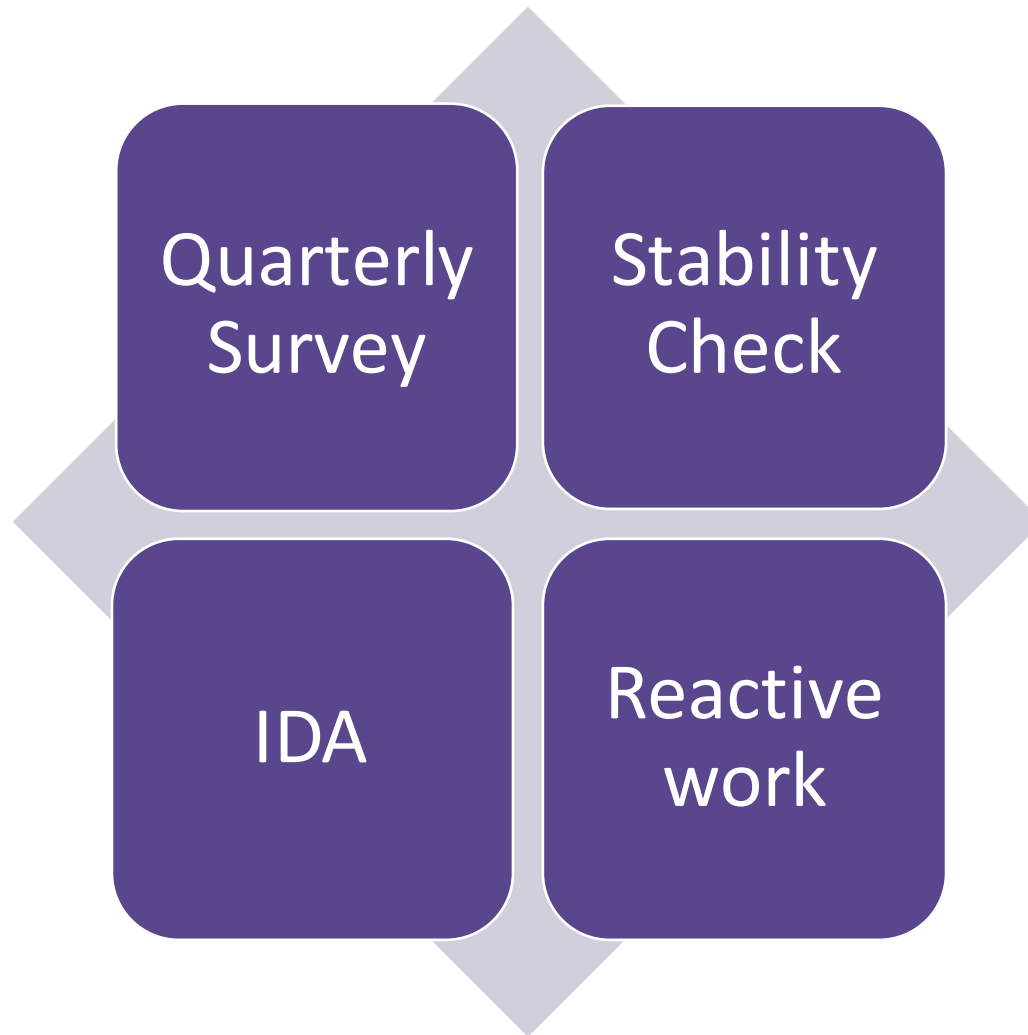
- Economic and consumer standards still applicable, but
- Limited data requirements applicable
- Not required to complete Quarterly Survey, or subject to Stability Checks, IDAs or regulatory judgements.
- Subject to annual review of financial statements and, if relevant, the audit management letter.
- Full summary of our approach can be found in Regulating the Standards

# Accurate and timely data – data returns

<b>Statistical Data Return (SDR)</b>	May
<b>Financial Forecast Return (FFR)</b> (plus business plan & supporting documentation)	June
<b>Quarterly Survey (QS)</b>	3 weeks after each quarter end
<b>Electronic Annual Accounts (FVA)</b>	6 months after financial year end
<b>Regulatory Documents</b>	
<b>Audited Accounts</b> <b>Audit Management Letter</b> <b>Fraud Report</b>	6 months after financial year end
<b>Quarterly disposal notification</b> <b>Priority disposal notification</b>	3 weeks after each quarter end As required ( <i>disposal notification guidance available soon</i> )



# Cornerstones of our practical approach



# IDAs

- Strategy
  - Activities, priorities, markets
- Structure and organisational dynamics
  - Relationships between group entities
  - Legal status, funding mechanisms and associated risks
- Financial resilience
  - Financial performance
  - Debt, liquidity and future funding
  - Cost structure and efficiency
- Risk management
  - Key and emerging risks across the whole business
  - Use of stress testing and recovery planning to identify and manage risk
- Governance
  - Quality of business planning and reporting
  - Compliance and control
  - VfM



# Practicalities of IDAs

- Clear focus on material risks – largely assessing governance through management of risks
- Key documents:
  - Business / financial plans including stress testing and recovery planning
  - Board and committee papers including KPI reporting
  - Risk assessment
  - Management accounts
  - Internal audit plans and outcomes
- Meetings – not pre-set / various combinations
- Co-regulatory – ask for more docs / assurance gap meeting



# Regulatory Decisions – Judgements and Notices

<b>G1</b>	The provider meets our governance requirements.	Compliant	<b>V1</b>	The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.	Compliant
<b>G2</b>	The provider meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance.		<b>V2</b>	The provider meets our viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.	
		Non-compliant			Non-compliant
<b>G3</b>	The provider does not meet our governance requirements. There are issues of serious regulatory concern and in agreement with us the provider is working to improve its position.		<b>V3</b>	The provider does not meet our viability requirements. There are issues of serious regulatory concern and, in agreement with us, the provider is working to improve its position.	
<b>G4</b>	The provider does not meet our governance requirements. There are issues of serious regulatory concern and the provider is subject to regulatory intervention or enforcement action.		<b>V4</b>	The provider does not meet our viability requirements. There are issues of serious regulatory concern and the provider is subject to regulatory intervention or enforcement action.	



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# Questions, discussion and sharing

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Director of Regulatory Operations

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# The regulator's expectations of the board and learning from problem cases

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# NHF code 2020 requirements

## Strategy and Delivery

The board:

- sets the organisation's overall direction and strategy in line with its charitable, community benefit or other constitutional purposes.
- sets financially sustainable plans to ensure that the organisation has the resources it needs to deliver its strategy.
- gives specific consideration in setting such plans to value for money, financial sustainability, ...
- exercises demonstrable and effective oversight of delivery.

# Setting purpose and strategic aims and delivering it

- What is this organisation for
- Do we have clarity on our purpose and objectives?
- How do we decide how to use the organisation's money to deliver our objectives?
- What are the trade offs and opportunity costs
- How will we know if we've achieved VfM in delivering our strategy?
- Why are we doing what we are doing?
- If I was putting my own money at risk, would I do this?
- If I would, what return would I want?
- Is it delivering its medium and long term strategic aims?





# NHF code 2020 requirements

## **Control and Assurance**

The board:

- actively manages the risks faced by the organisation, and obtains robust assurance that controls are effective, that plans and compliance obligations are being delivered
- retains ultimate responsibility for risk management and ensures that appropriate risk management arrangements are in place
- retains ultimate responsibility for the organisation's compliance with all legal, statutory, regulatory and constitutional requirements.

# Appetite for risk – What happens if it goes wrong

Stress testing – an integral part of strategy setting, business planning, decision making and risk management

Identify and quantify the risks to achieving strategic objectives and use results to test and set risk appetite

Business planning ... 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

# Value for Money

- Strategic objectives – measurable targets, reporting and performance
- Challenge VfM performance at strategic and operational levels
- Understand business stream and subsidiary performance
- Integral part of decision making, especially investment decisions
- Understand assets to optimise economy, efficiency and effectiveness
- Thorough grasp of, and response to, outlier positions on VfM metrics

# Depth' illustration: Governance arrangements managing development for market sale

- Strategic or opportunistic – purpose linked to organisational aims
- Decision making
  - Quality of 'for decision' report, appraisal incl. VfM ...
  - Skills and advice
- Stress testing
  - Sales delays / reduced values / cashflow / committed/uncommitted
  - Mitigations and contingencies
- Key Controls and assurances (ref to Strategic Risk Assessment)
  - Market intelligence
  - Scheme appraisals / hurdles
  - Quality of board reporting
  - Cash flow controls
  - Performance reporting / early warning signs
- Outputs/delivery of aims



# 'Depth' illustration: Governance arrangements managing H&S risks

- The risk assessment, documented controls and assurance map
- Coverage of risks - fire, electrical, asbestos, gas, legionella ...
- Clarity of responsibility
- Board understanding of risks, documented controls and its assurance on them
- Sample of oversight performance reporting to the board or committee
- Recent third-party assurance:
  - Data integrity
  - Internal audit / specialist advise
  - Frequency
  - Coverage of risk areas
  - Findings from audits and reviews - number and severity of recommendations
  - Recommendation follow up
  - Customer complaints
  - CQC inspections

# Learning from Problem Cases

# Learning from IDAs

Stress testing and resulting recovery planning is the most commonly re-occurring area where RPs struggle to demonstrate compliance in IDAs. To avoid the common shortcomings, make sure that:

- Stress tests are taxing and consider:
  - internal and external factors, separately and in combination
  - cross group impacts and risks
  - 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 and decision making

# Learning from IDAs (2)

- Have well defined measures in place to track delivery of your organisation's strategy and be transparent with your stakeholders about progress
- Have a well articulated assessment of strategic risks and associated controls
- Be able to evidence good levels of assurance on the design and operation of key internal controls
- Have a fresh look at board reporting (oversight and for decision reports) – and be satisfied on quality, coverage and frequency
- Be able to demonstrate strong oversight and control, including that of subsidiaries and separate business streams/activities
- Be assured that your organisation has comprehensive, accurate and up to date stock condition data to support DHS compliance, major repair programmes, H&S obligations and associated expenditure
- Be confident in the strength of your organisation's compliance environment



# The “unholy trinity” of problem cases

“Weak governance leading to failures of non-executive oversight”

“Powerful ambition, from Board and executive, unmatched by ability, capacity or understanding of risks”

“Incompetence and lack of attention to detail and compliance, the issues often compounded by excessive complexity”



# Plans and projects

- Very tight business plan with little headroom
- Unrealistic assumptions
- Overly ambitious aspirations
- Rapid and/or large scale expansion
- An opportunist approach to new business
- Taking on projects that others have declined
- Poorly appraised plans and projects
- Insufficient or inadequate stress testing
- No Plan B



# Complexity in...

- Governance structures
- Management arrangements
- Funding mechanisms
- Major projects or transactions
- Partnering arrangements



# People

- Weaknesses at Board or Executive level
- Weak Board and maverick Chief Executive
- Cosy relationships between Board and Executive
- Lack of challenge from the Board
- Instability at Board or Executive level
- Lack of management depth
- Failure to match experience and expertise with activities
- Poor relationships with key stakeholders



# Oversight and control

- Poor quality Board reporting
- Ineffective Audit Committee
- Inadequate audit and assurance arrangements
- Failure to understand the key risks
- Insufficient focus on performance and compliance
- Inadequate financial information and reporting
- Late or inaccurate regulatory returns
- Serious findings in the audit management letter
- Whistleblowing and other allegations





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