



Regulator of
Social Housing

Overview of regulatory requirements for Boards and Board members

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The role of the Regulator

- Why it exists
 - Maintain lender confidence (cost of funding)
 - Protecting the taxpayer
 - Protecting tenants

- 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

The Standards

Economic

- Governance and Financial Viability
- Value for Money
- Rent

Consumer

- 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 ensure that they manage their affairs with an appropriate degree of skill, independence, diligence, effectiveness, prudence and foresight.

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

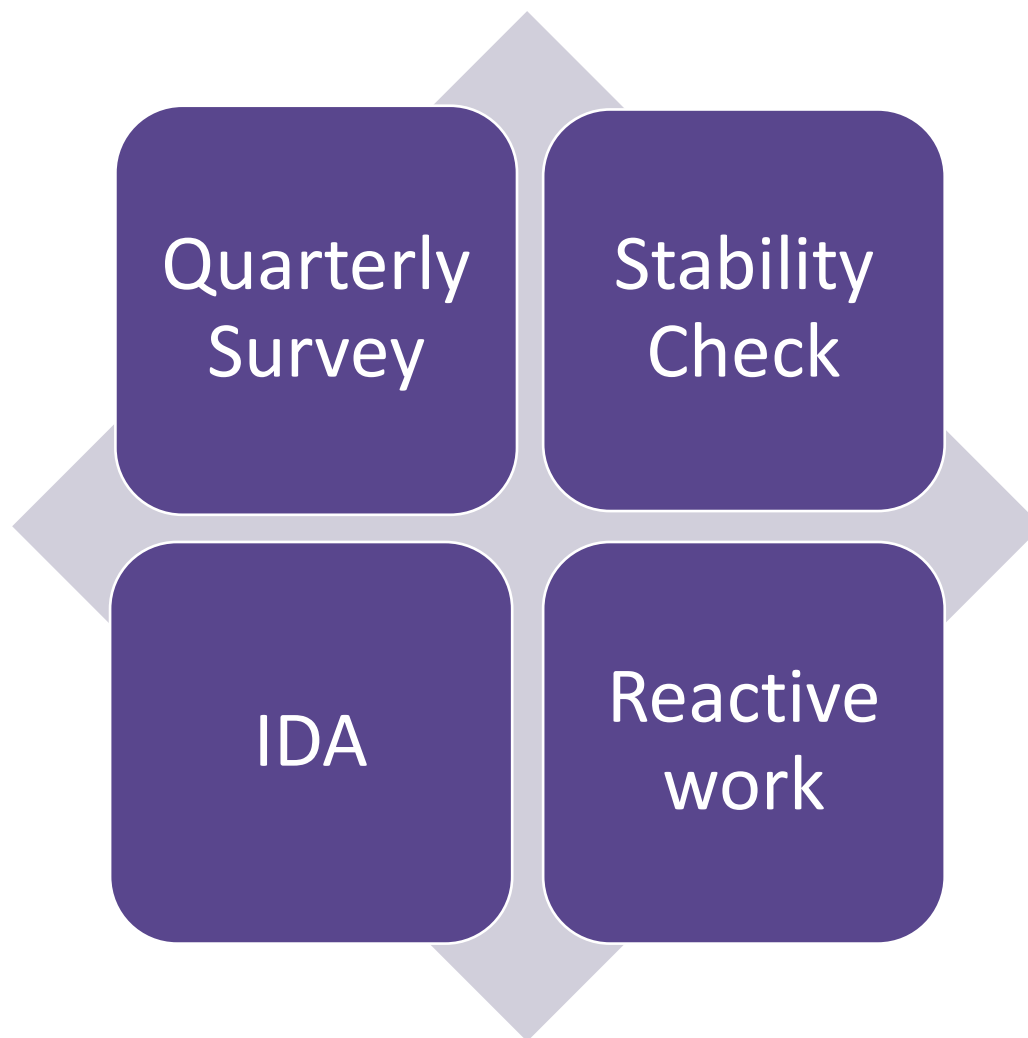
If under 1,000 units:

- 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

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

Cornerstones of our practical approach



Regulatory Judgements

G1	The provider meets our governance requirements.	Compliant	V1	The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.	Compliant
G2	The provider meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance.		V2	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.	
G3	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.	Non-compliant	V3	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.	Non-compliant
G4	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.		V4	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.	

Setting purpose and strategic aims and delivering it

- What is this organisation for and is it delivering its medium and long term strategic aims?
- 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?



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



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Any questions or comments?

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More detail on how we regulate and learning from problem cases

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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



Walkthrough Illustration: Development for Market Sale

- What's changing - activity and / or tenure mix – strategic or opportunistic
- 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 / recovery planning
- Key Controls (Ref to Strategic Risk Assessment)
 - Market intelligence
 - Scheme appraisals / hurdles
 - Quality of board reporting
 - Cash flow controls
 - Performance reporting / early warning signs



'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

Interaction between consumer regulation and governance

- Board assurance on key risk areas – health and safety
- Compliance culture - a strong grip on compliance is a fundamental board responsibility
 - Identification and prioritisation of key risks, impacts and controls
 - High quality board reporting – focus on reporting and compliance
- Effective internal controls, internal controls assurance and board oversight and a strong Audit Committee
- Transparency with the regulator is essential if a registered provider suspects a breach
- Social Housing White Paper ... move to proactive consumer regulation

Value for Money – Expectation of full compliance with 2018 standard

- Strategic objectives – measurable targets, reporting and performance
- Thorough grasp of, and response to, outlier positions on VfM metrics
- 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

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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