

## **Summary of events following the Statutory Inquiry at Tai Cantref**

The Statutory Inquiry report was completed in October 2015. The report found multiple instances of mismanagement and misconduct. The report made no comment beyond its brief to establish whether there was evidence to support the serious allegations made by whistle blowers. It made no recommendations or commentary on possible ways forward.

Tai Cantref's Board were given until 13<sup>th</sup> November 2015 to set out a credible response and plan to deal with the findings of the inquiry. The Welsh Government Regulation Team (the Regulator) considered that the initial response was inadequate in both the association's acceptance of the findings and its intentions and commitment to tackling the issues raised.

The Board was also required to share a copy of the Inquiry with its lenders who were similarly concerned with the response and reserved the right to enforce loan conditions. By this point an event of default had been triggered in Tai Cantref's loan agreements.

Following detailed discussions, including with lenders, the Board was given a second chance to respond to the findings. Shortly after this decision was notified to Tai Cantref, the Chair resigned and an existing Board member was unanimously appointed as the new Chair. The Board then took a number of key decisions which provided assurance it was now seeking to respond to the findings:

- the Board appointed a consultant to provide immediate support the Board to address the Inquiry findings.
- three suitably experienced, first language welsh speakers, were co-opted to strengthen the Board.

As a result of these changes, a request by the Board to be given a short further extension of time to respond more fully to the Inquiry findings was agreed. At this point, senior staffing changes meant Tai Cantref had now only had one senior executive in post. The Board therefore decided to appoint suitably experienced interim senior management support.

The second response to the Inquiry was subsequently received. It was far more robust and demonstrated Tai Cantref was engaging in addressing the findings of the Inquiry.

Lenders however remained very concerned and were closely monitoring events at the association.

## **Potential Insolvency**

As per normal business routine, Tai Cantref submitted a business plan cash flow forecast which caused serious concerns. It was closely scrutinised as the forecast showed severe cash flow constraints and therefore viability issues. As a result,

conditions were imposed on the use of drawdown funds. The use of drawdown funds for any purpose is normally strictly prohibited when an organisation is in default, however, an exception was made in the knowledge that Cantref had contractual obligations to meet, and failure to do so would have exacerbated the position. The conditions included the Board seeking a merger partner as a way forward to ensure the viability of the organisation.

In early March 2016, Tai Cantref advised the Regulator that March staff salaries could be paid, but there were no funds available to meet April's pay roll. Contrary to much speculation, Cantref reached the point of imminent insolvency. At this point, an urgent merger became a rescue.

Unfortunately this sequence of events made it clear the Board had not been able to satisfy the lenders requirements for the highest standards of management and governance. There was a lack of confidence in the Board and they were not able to convince the funders they could resolve the problems at the association effectively.

A paper setting out the options was presented to the Board in March and once the Board agreed to seek a merger went on to consider potential merger partners with a particular focus on those who would have the financial strength to rescue Tai Cantref. The Regulator maintained oversight of events throughout this period.

### **Selection of Merger Partner**

As a result of that engagement, the Regulator, working with other stakeholders, secured additional time and financial support to enable Cantref's Board to take a more measured approach to selecting a merger partner. A timetable was set to secure a partner by 30 April 2016 and complete the merger by 30 September. This action protected tenants and public investment.

The Board then established a working group which agreed the process and criteria for selecting a preferred merger partner.

Following the selection process and appropriate due diligence, the final decision to merge was made by Tai Cantref's shareholders. At two Special General Meetings, as required by Tai Cantref's rules, shareholders overwhelmingly endorsed the Board's recommendation to merge with Wales and West Housing, by way of a Transfer of Engagements.

### **Tenant Engagement**

Tai Cantref sent written information to all of their tenants about the potential merger including details of how to raise any concerns or questions about the proposals. Further opportunities were provided for discussion at tenant panel meetings, a tenant event and other tenant/staff interactions including tenant panel meetings in May and July. The majority of other responses were broadly positive and only two queries from individual tenants were received.

This was not a stock transfer and as such there was no requirement for a tenant ballot.

## **Strengthening Regulatory Practice in Wales**

There are a number of important changes to regulatory practice which have been introduced as a result of issues which have emerged from this and other complex regulatory cases recently. These include:

- a revised Regulatory Framework which facilitates a defined response to regulatory concerns and poor performance with a clear public judgment on the Regulator's view of an RSL. The revised framework also responds to the changing operating and legal environment, particularly the Office for National Statistics Reclassification decision.
- improvements in the early identification of Boards and executive teams where there is evidence of poor functioning and performance.
- early engagement with funders

### **Regulatory Framework**

The revised Regulatory Framework was launched in December 2016. It has been operating since January 2017 and is, for the first time, a judgement based framework. A link to the framework is here:

<http://gov.wales/topics/housing-and-regeneration/publications/regframeworkhousingassoc/?lang=en>

The system is based on RSLs demonstrating they are meeting performance standards through a compliance statement which is continuously assessed, on a risk basis, by the Regulation team. Judgements on each RSL's governance, including landlord services, and financial viability are published at least annually.

Under the new framework, when the regulator has significant concerns about an association, once the facts had been established, a revised judgement would be published with an outline of the issues in question. This would have the effect of putting the Board and executive on public notice they were required to tackle serious issues. Funders and other stakeholders would be immediately alerted and the Board and executive would be publicly accountable for inaction and not resolving the issues.

The new Regulatory Framework ensures a consistent, public regulatory response when Boards are not managing risk properly, leading to swifter resolution of issues before they become irrecoverable.

### **Boards and executive teams which are performing or functioning poorly**

Under the new framework, the Regulation Team focusses on the Board's responsibility to discharge its primary function of ensuring the organisation is run effectively. It relies less on assurance from the executive team with a view to making it more likely Boards have the necessary information and assurance they need to carry out their role effectively.

The relationship between the regulator and the Board provides the opportunity to understand the Board, its dynamics and effectiveness and therefore to more easily identify signs of poorly functioning Boards at an early point and instigate action through the framework. Despite this focus on Board responsibility, the more open relationship also means the Regulator has an ability to assess the relationship between the Board and the executive team and identify issues as early as possible.

Where there are problems at an association, the Regulator now addresses the whole Board, rather than assuming discussions between CEO, Chair and Regulator are reflected up to full Board.

### **Early and full engagement with funders**

Prior to Cantref, there was a sector agreed protocol which meant associations were responsible for managing their lender relationships. Regulation could only interact through the Council of Mortgage lenders and with written permission from the association. Cantref refused permission for the Regulator to speak with their lenders, when it was clear they needed to be involved, and relented only after senior representations were made.

As a result the Regulator has worked to develop strong, direct relationships with the key lending institutions. The requirement for written permission and contact via CML has been removed and direct conversations on matters of concern are now a part of routine Regulation.

**Welsh Government Regulation Team**  
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