

Cynulliad Cenedlaethol Cymru / National Assembly for Wales

Y Pwyllgor Cyfrifon Cyhoeddus / Public Accounts Committee

Ymchwiliad i drefn reoleiddio Cymdeithasau Tai / Inquiry into Regulatory oversight of Housing Associations

Ymateb gan Cartrefi Cymunedol Cymru / Evidence from Community Housing Cymru

## **About Us**

1. **Community Housing Cymru (CHC)** is the representative body for housing associations and community mutuels in Wales, which are all not-for-profit organisations. Housing associations provide over 158,000 affordable homes, and house nearly 10% of the population of Wales. In 2015/16, our members directly employed 9,100 people and spent nearly £2bn (directly and indirectly) in the Welsh economy, with 89% of this spend retained in Wales. Our members work closely with local government, third sector organisations and Welsh Government to provide a range of services in communities across Wales. The work of housing associations is diverse and spans both general needs homes to very specialist accommodation and services.

2. The sector is regulated by Welsh Government's housing regulation team in accordance with The Regulatory Framework for Housing Associations Registered in Wales and overseen by the Regulatory Board for Wales. Whilst constitutional formats vary, the governing instruments of housing associations establish their core purpose as not for profit organisations, committed to benefiting the community.

## **Our response**

3. CHC welcomes the opportunity to respond to this inquiry into the regulatory oversight of housing associations in Wales.

- Housing associations are independent bodies, with a social purpose, delivering a range of services across Wales. Their core business is building and managing social rented homes to those in need. Housing associations provide affordable homes to nearly 10% of the Welsh population, and services and regeneration activity which extends far beyond this, including meeting wider housing need.
- Housing associations have attracted more than £2.5bn of investment into Wales from commercial banks and other investors, allowing us to make public money go further in building homes and regenerating communities.
- Housing associations are committed to a strong and effective regulatory system which supports their work to deliver the homes Wales needs to tackle the housing crisis, and to support tenants and communities across the country.

### **The effectiveness of the current Regulatory Framework for Housing Associations Registered in Wales:**

4. The regulation of housing associations in Wales has developed significantly since the Essex Review recommended that the then Welsh Assembly Government urgently revised and updated the regulatory framework to support the growing role of housing associations. Since the review in 2008, Welsh housing associations have provided an additional 17,864 homes in Wales, with a direct economic contribution of £7.45bn and a further indirect economic contribution of more than £7bn.

5. Housing associations have worked with Welsh Government and tenants' organisations over the 8 years since the Essex Review to continue the development of the Regulatory Framework, so that it supports the work of housing associations to provide quality homes and services to their

tenants. In this time, the sector has worked with the regulator to ensure that the sector remains strong through a number of external challenges to their businesses, including welfare reform. The regulatory framework has supported the sector through a number of mergers, and when the sector has encountered challenges, it has worked together to overcome these and allow individual businesses and the sector to develop. It is worth noting, that in contrast with other nations, there have been no defaults in the housing associations sector in Wales.

6. CHC was pleased to see the establishment of an independent Regulatory Board for Wales in February 2015. CHC called for a fully independent board, and it is our view that independence is essential to ensure that regulation is the most effective it can be, and retains the confidence of housing associations, tenants and stakeholders including lenders. It is our belief that the work of the Board to date has added value and focus to regulation in Wales. For example, the Regulatory Board has in its short time in existence made a number of significant changes to the regulatory framework which will increase its focus on good governance, tenant services and financial viability.

7. We are supportive of the most recent development of the regulatory framework, which will be trialled from January 2017, and we believe will ensure increased transparency and focus on governance, tenant services and financial viability. The changes to the regulatory framework will:

- Establish a series of co-regulatory status levels on financial viability and governance and tenant services, published as part of the annual regulatory judgement
- Judgements will be based on an assessment of the organisation's capacity to effectively manage and improve the business
- Introduce a new compliance statement to sit alongside the existing self-evaluation.

–Consult on an amended set of delivery outcomes, to reflect the updated and clearer focus on financial viability, tenant services and governance.

8. CHC supports this greater focus on governance, tenant services and financial viability whilst maintaining the principles of co-regulation. Housing associations welcome the sharp focus on continuous improvement, and in particular the renewed focus it will bring on leadership and strategic focus, as well as the financial operation of the business and a continued drive to improve and deliver for local communities.

9. The new approach will be piloted for a year. It is crucial to its success that the Regulatory team within Welsh Government have the skills and capacity to respond to the changed framework and focus on governance, tenant services and financial viability.

#### **The effectiveness and quality of governance arrangements:**

10. Housing associations in Wales are well governed organisations that, as a sector, have a track record of delivery up and down Wales.

11. Housing associations are not complacent, and are seeking to continually improve the governance throughout the sector. CHC plays a key supporting role in this; we have developed a Code of Governance for the sector – which the vast majority of CHC members have signed up to – along with Model Rules for Welsh housing associations, and our Come On Board scheme which promotes board membership in the sector, and helps our members with the recruitment of board members. Further to this, we support Board Members and professionals involved in the governance of the organisation through a strong training offer.

12. The environment within which housing associations operate in Wales is increasingly complex. For example, some of the risks and challenges boards are currently managing include the impact of leaving the European Union on the housing market and availability of skills and materials, and the impact of welfare reforms on individual tenants and business plan. As such, housing associations will continually challenge themselves to ensure that the skills mix on their boards and within their executive teams are fit for purpose to meet the demands of the environment in which they operate.

13. In the context of the increasing complexity of these organisations and the challenges they face, board members in the housing association sector give their expertise to organisations on a voluntary basis. There are significant demands upon their time, and housing associations are recruiting board members in competition with other sectors where board members are paid. To ensure that housing associations can attract appropriately skilled and committed board members they should have the option of paying their board members if they feel it is appropriate.

**Whether the current regulatory regime is effective in managing and mitigating sector wide risks:**

14. Housing associations place effective and proportionate risk management at the heart of their business plans. Housing associations do this through rigorous stress testing and challenge through their strong governance arrangements. It is for independent housing associations to manage and mitigate organisational risks. CHC also plays a role to highlight and advocate reducing sector wide risks to the operating environment.

15. The regulator plays an important supportive role in identifying sector wide risks. The proposed changes to the regulatory regime place a much stronger and clearer emphasis on the ability of the organisation to manage

risk and the regulator will take judgements based on the mitigated risks facing an organisation. The framework focuses its attention on the fundamental building blocks of a successful organisation. CHC and our members welcome this evolution of the current approach to regulation.

**16.** The new approach will be piloted for a year, and housing associations will be keen to ensure that the regulator itself had the skills and capacity to implement this new framework over the course of the pilot. It is essential that regulation managers focus on leadership, governance, managed and mitigated risk rather than a focus on operational and low level risk issues.

**17.** Housing associations blend public investment with private finance and have been successful in attracting £2.5bn into Wales. Crucial to the sector's ability to access affordable finance has been a strong focus on risk assessment and management. It is at the core of their business and housing associations use a range of tools and techniques including stress testing, asset and liability registers and recovery planning to provide assurance to lenders.

#### **The effectiveness of the co-regulatory approach in practice:**

**18.** Co-regulation is at the core of the regulatory framework and a principle that housing associations fully support. A co-regulatory approach allows housing associations to operate independently and take their own decisions, to deliver on their mission and social purpose, while allowing for regulatory oversight from Welsh Government, tenants, lenders and other stakeholders to protect tenants' interests and public money. The latest development of the regulatory framework retains this focus.

**19.** Self-assessment remains a core part of the co-regulatory approach. Housing associations use the self-assessment to challenge themselves and

seek scrutiny on progress and continuous improvement, and a failure to convince the regulator of the robustness of current performance will result in greater scrutiny. In addition to the self-assessment the new framework will also include a compliance statement which will add additional focus and transparency to the approach.

**20.** Ongoing dialogue between regulator and sector remains a central component of co-regulation. It is therefore critical that the regulatory team have the skills and capacity to engage proportionately, on an ongoing basis and in a manner that adds value to the effectiveness of the organisation.

#### **The remuneration levels of senior staff of housing associations:**

**21.** Housing associations are independent organisations, and senior staff remuneration is set within housing associations through transparent and robust processes. For example, it is common practice in the sector to operate a Remuneration Committee, which sits independently of the main board to take decisions on salaries. These will often be informed by independent benchmarking, and tenant involvement in the salary setting process.

**22.** Each of our members produces an annual report and finance statement, which sets out key performance indicators. Our members publish details of their highest paid member of staff in these accounts.

**23.** As part of the work of our HR Network, CHC carries out an annual benchmarking survey which includes data on salaries in the sector. The survey found that across the sector as a whole, the median ratio of Chief Executive salary compared to the rest of the workforce is 4:1, which compares favourably with the average ratio of 5.97:1 recorded by businesses publishing their ratio on paycompare.org.

24. Housing associations are increasingly complex organisations, delivering a wide range of services for tenants and communities – including care and support – in addition to building houses across all tenures to meet demand locally. Housing associations compete for talent within a UK employment market for the skills, experience and knowledge that are required to lead these organisations and manage and attract finance to deliver new homes and services. It is important to be able to attract talent to the sector to retain the confidence of lenders, and continue to deliver for the communities they serve.

25. Housing associations in Wales provide huge value for money for the Welsh public; for every £1 of capital investment from the public purse, housing associations directly generate £14 of output in Wales. Last year, housing associations invested more than £1bn in communities throughout Wales, with 89p in every £1 remaining in the Welsh economy.

26. Demonstrating value for money is important to the sector, and CHC is working closely with our members to ensure that they can do so. In October 2016, we published a guide for members in partnership with Housemark to help them to do this, and we will be publishing a number of indicators on Value for Money in 2017. We also understand that value for money is a priority area for the Regulatory Board for Wales and that they are supportive of our work this area.

### **Further comments**

27. A further issue intrinsically linked to the discussions about how housing associations are regulated is the decision in September, by the Office for National Statistics, to reclassify housing associations as public sector bodies for the purposes of national accounts.



**28.** The decision – based on the 2010 European System of Accounts – identifies the significant government control that can be exercised over the general corporate policy of the unit. This is a largely technical accounting issue, but legislation will be required to address it.

**29.** There has been no immediate adverse impact of the decision, due to a short term agreement between Welsh Government and HM Treasury which will allow time for the legislation to reverse ONS' decision to proceed. However, if housing associations were to remain classified as public sector in the long term, it could impact on their ability to borrow at favourable rates, in turn posing a threat to the Welsh Government's target of 20,000 homes.

**30.** Housing associations are community-based organisations, which are committed to delivering the ambitious affordable housing target, working with communities and in a strong and effective regulatory environment.