

Successful places
with homes and jobs

Homes &
Communities
Agency

**A NATIONAL
AGENCY
WORKING
LOCALLY**

Presentation to HIAF
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The regulatory perspective

Homes &
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- The operating context
- Regulation- remit and relationships
- The expectations of boards
- Our regulatory focus
- Current issues

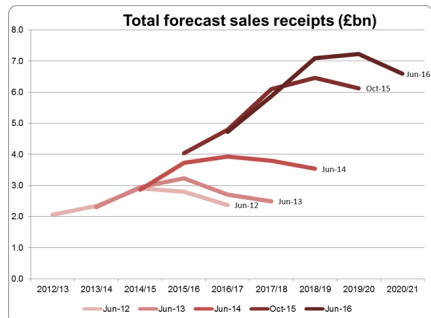
Key Sector Developments

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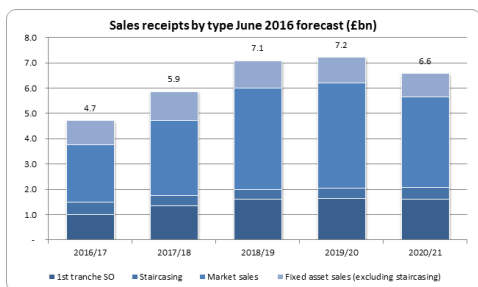
- Increase in commercial activity – market sales and shared ownership; care contracts; market rent
- Social housing lettings continue to be more than 2/3 sector turnover in 2020/21
- Commercial activity concentrated; next 5 years >90% forecast market sales surplus – 20 providers
- EBITDA MRI interest cover – modest increase over next 5 years
- Re-affirm focus on stress testing in IDAs



Providers business plans have moved on...



To become ever more market facing



Direction of travel for regulation



'...promote a viable, efficient and well governed social housing sector able to deliver homes that meet a range of needs'

- Fees and independence
- Deregulation- Notifications of restructures and disposals
- G&FV standard compliance
 - Assets and liabilities
 - Stress testing
- Large providers
- Refreshing Value for Money and consumer standards
- Reporting on Voluntary RTB (?)
- Rents compliance

Regulation Objectives



- Economic regulation:
 - to ensure that registered providers of social housing are financially viable and properly managed
- Consumer regulation:
 - to ensure that tenants of social housing have an appropriate degree of protection by setting consumer standards

A co-regulatory approach



- Board members responsible for ensuring that providers are managed effectively and that they comply with all regulatory requirements
- Providers must support tenants to shape and scrutinise service delivery; hold boards to account
- We operate as an assurance-based regulator
 - Onus is on providers to demonstrate compliance to us
 - Where we lack the requisite assurance, this will be reflected in any judgements we reach

Consumer regulation



- Consumer standards apply to **all** registered providers
- Materiality & proportionality – regulator focuses on systemic issues
- Our role is reactive only – in line with legislation
- The regulator may only act:
 - where there has been a **breach of a standard**
 - which has, or may, cause **serious detriment** (serious harm) to tenants or potential tenants
- The consumer standards are:
 - Home (quality of accommodation and repairs & maintenance)
 - Neighbourhood & Community
 - Tenancy
 - Tenant Involvement & Empowerment

Grenfell Tower



- Consumer standards apply to **all** registered providers (including local authorities)
- The regulator has written to all registered providers
 - Reminded of responsibility to meet consumer standards
 - Can contract out delivery but not responsibility
 - Get professional advice if Boards are unclear on statutory obligations
 - notify the regulator if think potential non-compliance
- Not speculating on causes, compliance, or actions

Deregulation



- Greater freedoms- Providers no longer need our statutory consent
 - Notifications to the regulator
 - Decisions need to be G&FV compliant
- Disposals:*
- Disposals in line with agreed strategies and plans
 - Tenanted disposals
 - Securing liabilities or novel/complex funding deals on social housing assets
- Restructures:*
- Providers no longer need our consent- but we still have to assess their governance and viability
 - Quality of decision making?
 - Interim regulatory gradings

Notifications and interim grading



- The notification system will help us:
 - Understand what is happening in the market and any trends
 - Inform our risk segmentation, engagement with providers and published judgements (including interim gradings)
 - Maintain the statutory public register
- It is not a replacement for consents

Mergers- our expectations



- Early information on relatively advanced merger talks:
 - The kind of merger, restructure, arrangement, reconstruction, or dissolution they are planning/intending to progress;
 - The proposed timescales; and
 - The identity of any other bodies that are involved.
- Formal notification of merger / constitutional change:
 - Check it aligns with the restructure expected
 - Check if a registration decision is required
 - Update register and send confirmation letter
 - Issue interim judgement

Mergers- Interim grades



- Normal expectation that the regulator will do no additional work on the merger/restructure of V1/G1 providers unless there are specific presenting factors (e.g. significantly increased complexity compared to the standalone entities)
- Merger/restructure of any provider at G2 or V2 will be considered on a case-by-case basis but starting assumption is that the lower of the two existing grades will apply (subject to relative scale of the providers)
- An interim grade will be confirmed as standard by either stability check or IDA

Sector risk



- Health and safety
- Economic climate
- Rental income
- Supported housing
- Development
- Debt
- Deregulation

The role of the board



- Heightened expectations of chairs and boards
- Identify and understand the risks
- Establish appropriate mitigations and controls
- Challenge on capabilities
- Robust stress testing
- Understand the worst case and plan for it

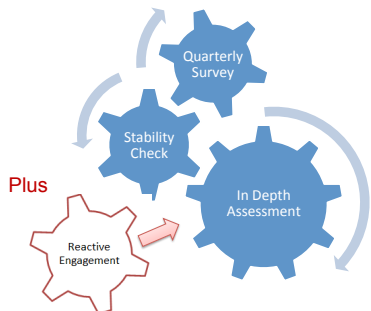


Assurance and control




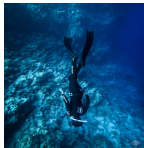

- Establish appropriate controls
- Challenge selves on skills and capabilities
- Review existing arrangements with third parties to ensure fit with requirements in Standard
- Ensure arrangements in place for boards to sign off compliance with G&FV Standard
- Consider additional requirements for groups, unregistered parents and profit making providers as appropriate

Our operational model



IDAS


- Strategic direction
- Structure
- Risk management and stress testing
- Financial Resilience
- Risk Profile and Mitigation
- Governance
- Value for money




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IDA Programme delivery

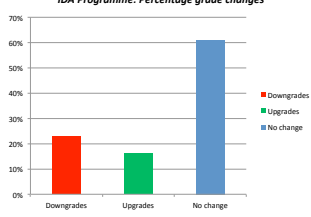
- Four-year programme- year two
- 102 IDAs completed since October 2015
- This represents 44% of total large provider population (229)



Over the whole of the programme about 40% of IDAs have now resulted in a change of grade



IDA Programme: Percentage grade changes



Grade Change	Percentage
Downgrades	22%
Upgrades	16%
No change	62%

This chart excludes seven 'First Judgement' IDAs

Facts & Figures

Stress testing: current weaknesses



- Treated separately from business planning, strategic decision making, A&L records and risk management or “done for the regulator”
- Lack of board engagement and understanding
- Failure to consider effects on both **cash** and **covenants**
- Too much detail, too little practical use
- Business constraints, risk exposures and mitigation consequences not quantified – no concept of how much downside can be managed or mitigating upside generated
- Insufficiently stretching – “our business is unbreakable” – or not very stressful
- Exposures and triggers not integrated with performance monitoring, lead indicators not considered

Current weaknesses- 2



- Lack of consideration of
 - group effects – e.g. on-lending limits, impairments, availability of security in the right places
 - specific stresses in subsidiaries
 - external factors – e.g. contractor insolvency, JV partner withdrawal, consumer mortgage availability, pension revaluation, restricted financing market
 - correlated factors – e.g. inflation/interest rates/house prices/security values
 - Interaction or coincidence between internal and external factors
- Mitigations not practically thought through or modelled, trigger processes and lead times not considered
- Contradictory mitigations, knock-on effects of mitigations not considered (e.g. difference between sales and rental cashflow leading to reduced interest cover)

Key messages



- We expect stress testing to :
 - Be owned by the board
 - Cover all activities and entities in the group
 - Identify and quantify risk exposures which could lead to business failure
 - Be demanding, consider internal, external factors and limitations separately and in combination
 - Consider the effects on **cash, covenants and security**
 - Inform and be integrated with risk management, business planning and decision making and link with asset and liability register
 - Inform quantified mitigation strategies with trigger points and implementation plans; monitor performance to identify when trigger points are approaching
- Where we find inadequate stress testing we will reflect this in our governance grading

Viability grading



- Our approach to V1/V2 decisions is changing in line with a changed operating environment.
 - We may judge the underlying financial profile- although viable on current assumptions- to be vulnerable to the crystallisation of significant downside risks, potentially including changes in market conditions beyond the provider's control.
 - If a provider has made a conscious decision to accept more risk to deliver strategic aims and the risk is well managed (G1) this may well be an appropriate business decision
 - Reflecting the above, movement between V1 and V2 now termed 'regrades' rather than 'upgrade' or 'downgrade'

Our current assessment



- 226 current judgements

	V1	V2	V3	Total
G1	175	17	0	192
G2	13	14	0	27
G3	3	3	1	7
Total	191	34	1	226
