



# VIEWS

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## Regulation and the need for In-Depth Assessment

– *Sam McGrady, Director, DTP*



In my last blog I looked at some of the key themes which are emerging in recent Regulatory Judgements issued by the Regulator for Social Housing (RSH). From our detailed analysis of these judgements we have identified an increased focus on risk, control of non-social housing activity, stress testing and health and safety.

In most instances the majority of downgrades of registered providers (RPs) of social housing still arise as a result of In-Depth Assessments (IDA).

So what should providers do to ensure they are prepared for an IDA? And how can you ensure you come out of the process with your grading intact – or in certain circumstances improved?

The first thing to note is that evidence of good governance is critical to the IDA process. Concerns around financial viability, while important, are more likely to emerge through ongoing regulatory engagement, being identified via financial returns to the regulator. The first evidence the regulator has on governance meanwhile comes often from an IDA. If I could summarise my advice to providers in three words it would be: governance, governance and governance.

Providers need to fully understand what the RSH wants and expects when it comes to governance. Crucially, it is looking for evidence of a board which has a clear understanding of the expected culture, behaviours and standards of the organisation. That starts at the top and is built on probity, openness and transparency.

As increasing professionalism is required of boards, and it's important that boards understand exactly what is expected of them. That demands a realisation of the time commitment involved and the requirement to get to grips with the complexity of the issues being faced. We have seen a big uplift in the skills of boards in recent years, so all the signs are that the regulator's confidence in their ability is growing.

Board composition must balance continuity and renewal, experience and the need for a fresh outlook. Annual performance appraisal, both at the individual and collective level, needs to be robust and meaningful. If the role of political appointees to the board and tenants has diminished or disappeared, what are you doing to ensure those voices are still heard and listened to?

The IDA will also want to see evidence of a clear and considered approach to succession planning. Do you know what the terms of office of your different board members are? Do you have plans in place to ensure you effectively manage the process of renewal? It's always about looking ahead – seeing who will be leaving in the short to medium term and who you might bring in as a replacement.

Your chair too will also face scrutiny. Do they provide strong and inclusive leadership? Are they a good ambassador for the organisation? Do they manage meetings effectively and facilitate good decisions? Do they have good relationships with the chief executive and other board members?

The role of the company secretary (often an underrated role in my view) is also important. This is about more than just coming to the meetings and taking the minutes. It's about having a detailed understanding of the rules and constitution of the organisation – and being able to advise the chair accordingly. It's essential this role is resourced properly, and given the attention it deserves, in my view.

On top of this, there is a requirement for clarity on an RP's strategy, mission and values. That means having a clear answer when it comes to questions such as: what are we doing and why we are doing it. As challenges and opportunities arise, a credible and clearly understood response needs to be crafted in response to these questions. Remember, the regulator will observe a board meeting and interview the chair. Are you ready for this?

Other factors which should also be on your agenda before an IDA include: risk management, internal controls, stress testing, your approaches to partnerships and joint ventures and your assets and liabilities register. The IDA will place all of these under a glaring spotlight and you need to be ready to explain your activities and the rationale behind them.

That aside, what can you do to prepare yourself for an IDA?

On a practical level have all your documents ready and reviewed. First things first, make sure you know where they all are! Identify any gaps and ensure they are properly referenced.

Have a trial run if you can of some of the key elements of the IDA including interviews – this is especially important for non-executives who might be less sure about what might come up.

Crucially, preparation must involve getting your story straight: making sure everyone is singing from the same hymn sheet. Anticipate what areas the regulator will want to delve deeper into – with these most likely to focus on areas of risk.

Ensure you have a good grasp of the facts and figures which the regulator will expect you to evidence.

And most importantly keep calm and carry on! An IDA is a great opportunity to tell your story and demonstrate to the regulator that your organisation is playing its part. Don't waste it.