

HOUSING ASSOCIATION GOVERNANCE IN NORTHERN IRELAND

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DISCUSSION PAPER 3 – WHAT WE GOVERN?

1.0 Executive Summary

This is our third paper which draws on the Department for Social Development's (DSD) published inspection reportsⁱ (2012-2014), interviews with key stakeholders and CE and Board Member surveys. Details of the methodology can be found in Discussion Paper 1. The theme of this third paper is 'what we govern'. Evidence is presented around the following main themes:

- Roles of Boards/Board Members/Sub-committees
- Financial Management
- Asset Management
- Property Development
- Housing Management
- Corporate Governance

The structure of the paper mirrors that of discussion papers 1 and 2 with a short executive summary and selection of key discussion points (section 1) followed by a summary of evidence and evaluation of DSD inspection reports (section 2) and a discussion of implications for governance through use of a management model which looks at competing values of organizational effectiveness (section 3).

Following DSD regulatory interventions and reports in recent years, a lot of progress has been made by the sector in its understanding and management of governance and stewardship of HAs. In this workshop we will consider five key areas governed. It would be useful to review at the start and end of the workshop how participants rank each of these five areas in terms of the amount of attention still required by their own organization and by the sector.

We will discuss this as we go through the sections, summing up each section with the workshop's view of the top three to five issues that still need to be addressed within each governance function. Using responses to the first two questions below will help to set the agenda for the final Workshop/Conference to which we will invite appropriate speakers to address the top priorities identified.

1.1 Discussion Points

Role of Board/Board Members/Sub-committees

- Which functions are the most critical now for HA governance in NI?
- What are the most important topics and issues still requiring attention within each of these functions?

Financial Management

What are the top 3-5 sector priorities now to skill up governance of financial management?

- How important are treasury management issues?
- How important is an overall framework for future investment (risk, rate of return (financial and social))
- Who needs to be involved? (balance of finance experts and other board members, need for separation of spend and audit roles)
- When financial information is presented to the Board, is there constructive and informed challenge by all board members?
- How would you characterize the financial literacy of housing association boards generally and what more can be done to help boards up their game on finance?
- Should associations produce value for money statements?
- Is zero-based budgeting good practice and appropriate for all HAs?

Asset Management

What are the top 3-5 sector priorities now to skill up governance of asset management?

- How important is Asset management?
- How important is Procurement?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- Is the current prescriptive nature of procurement eroding the independence of Boards? What principles should guide HAs in their procurement activities?
- Are Boards fully aware of the staffing requirements and expertise needed for technical areas like asset management and procurement?
- Surveying was a key skills gap identified by CEs and BMs as lacking in boards in discussion paper one. Given the issues raised by the DSD regarding Asset Management Strategies and Stock Conditions Surveys, do Boards need to focus more of filling the surveying/technical gaps that currently exist?
- Are tenants sufficiently consulted on and involved in the procurement of repairs and other services?
- Are there any other obstacles in place that make Board awareness and monitoring of property management/maintenance difficult?

Property Development

What are the top 3-5 sector priorities now to skill up governance of development?

- How important is it to balance risk appetite with harnessing assets for new build?
- How important is it for Boards to control and monitor investment decisions and implementation?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- Should Boards of non-developing associations be encouraged to participate in the development programme?
- What is currently preventing them from being part of the programme?
- Does the sector need to upscale capacity in order to realise its development potential e.g. through partnership, collaboration, mergers, group structures etc.?
- Should tenants be involved in the work of Development Committees? Best practice cases have shown how by involving tenants in procurement decisions not only can tenants satisfaction be increased but substantial savings in procurement costs can also be achieved.

Housing Management

What are the top 3-5 sector priorities now in governance of housing management?

- How important is the tenant participation strategy?
- How important is it for Boards to be aware of policy implementation on estates and in communities?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- How are Boards preparing for changes to welfare reform?
- There is now an increased focus on tenancy fraud. How are Boards responding?

Corporate Governance

What are the top 3-5 sector priorities now to skill up on corporate governance?

- How important is it for strategy formulation, scenario planning and other 'big picture' roles to outweigh operational issues in board agendas?
- How can Boards best manage regulatory compliance while focusing on performance?
- What impact will scaling up and moving toward from conformance to performance based models have for sector governance?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- Can HAs work smarter on regulatory compliance by including board members with expertise in this area and giving them a champion role (this could help deal with the need to demonstrate **conformance** while freeing up the board as a whole to be more focused on **performance**)
- What impact will diversification and managing risk, along with developing investment strategies that cover all areas of the business (not just new housebuilding) mean for sector governance?
- Is the I&P model the best legal framework for housing associations in Northern Ireland? Should they be exempt from registration with Charity Commission NI?

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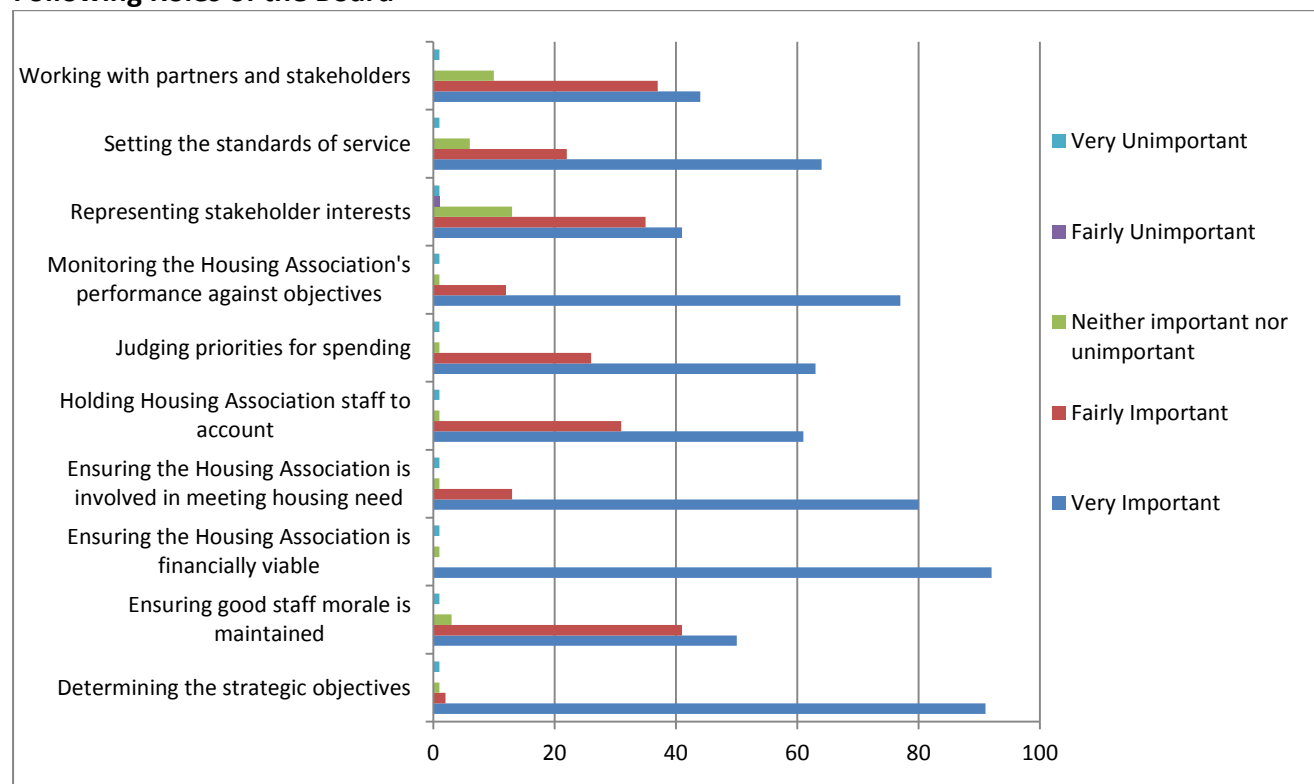
2.0 Role of Boards/Board Members/Sub-committees

This first section (2.0) presents evidence on what BMs view as important roles for the Boards as a whole and for BMs individually, the types of activities they have engaged in in the previous 12 months, as well as the range of sub-committees which underpin the HA Boards.

This evidence will enable us to test the functions and issues considered to be important by Boards and BMs with the range of functions and issues scrutinised by the Department during inspections (through an evaluation of recent inspection reports). This will be considered in section 3 where a management model on competing values of organisational effectiveness is presented in respect of corporate governance dilemmas.

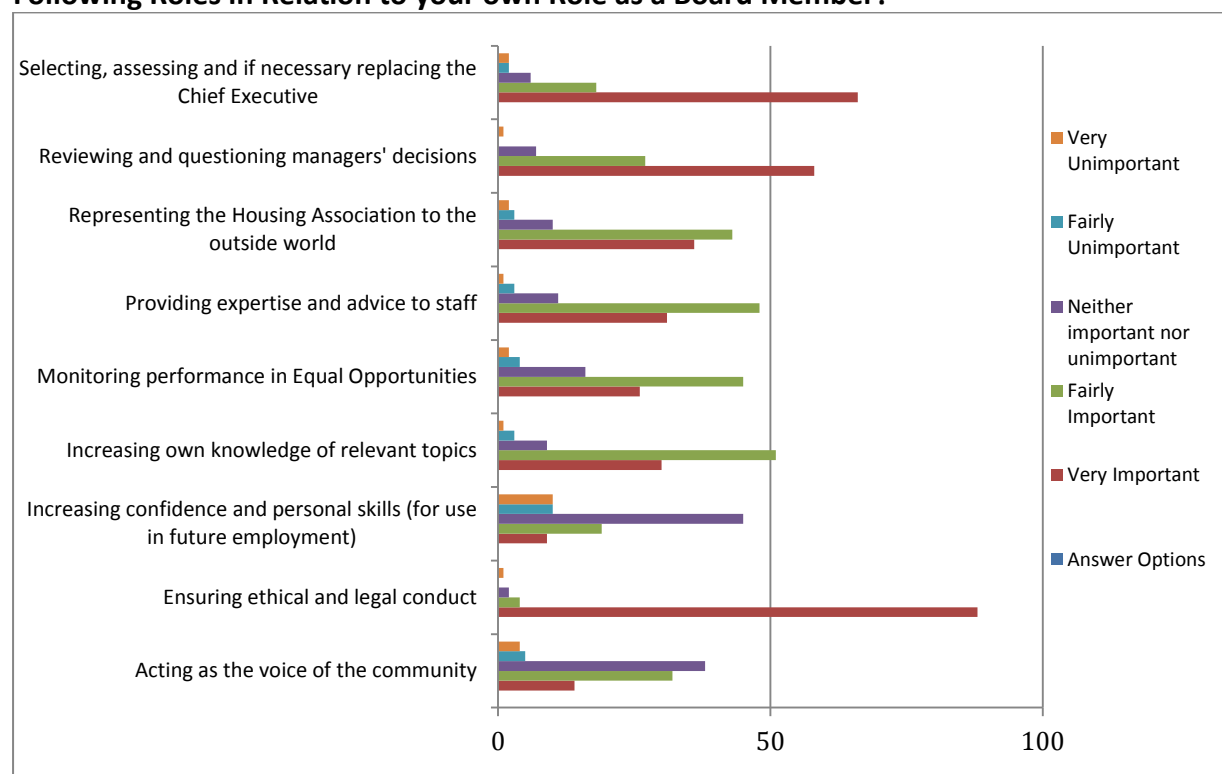
The subsequent sections (2.1-2.5) will focus on the internal workings and control procedures which are inspected by the Department, namely: financial management, asset management, property development, housing management and corporate governance. Questions in each section have been framed to help ascertain which functions and issues are considered important for Boards, which areas have been addressed through recent reforms in governance and what gaps remain as priorities for further attention in sector governance.

Figure 1: BM Survey - How Important or Unimportant Do You Consider the Following Roles of the Board



- Ninety-nine per cent (99%) thought that 'ensuring the Housing Association is financially viable' was very important and (1%) neither important nor unimportant
- Ninety-seven per cent (97%) thought that 'determining the strategic objectives' was very important, (2%) fairly important and (1%) neither important nor unimportant
- Eighty-six (86%) per cent thought 'monitoring the Housing Association's performance against objectives' was very important, (13%) fairly important and (1%) neither important nor unimportant
- Eighty-five per cent (85%) thought that 'ensuring the Housing Association is involved in meeting housing need' was very important along with (14%) who thought it was fairly important and (1%) neither important nor unimportant
- Seventy per cent (70%) thought 'judging priorities for spending' was very important, (29%) fairly important and (1%) neither important nor unimportant
- Seventy per cent (70%) thought that 'setting the standards of service' was very important, (24%) fairly important and (7%) neither important nor unimportant

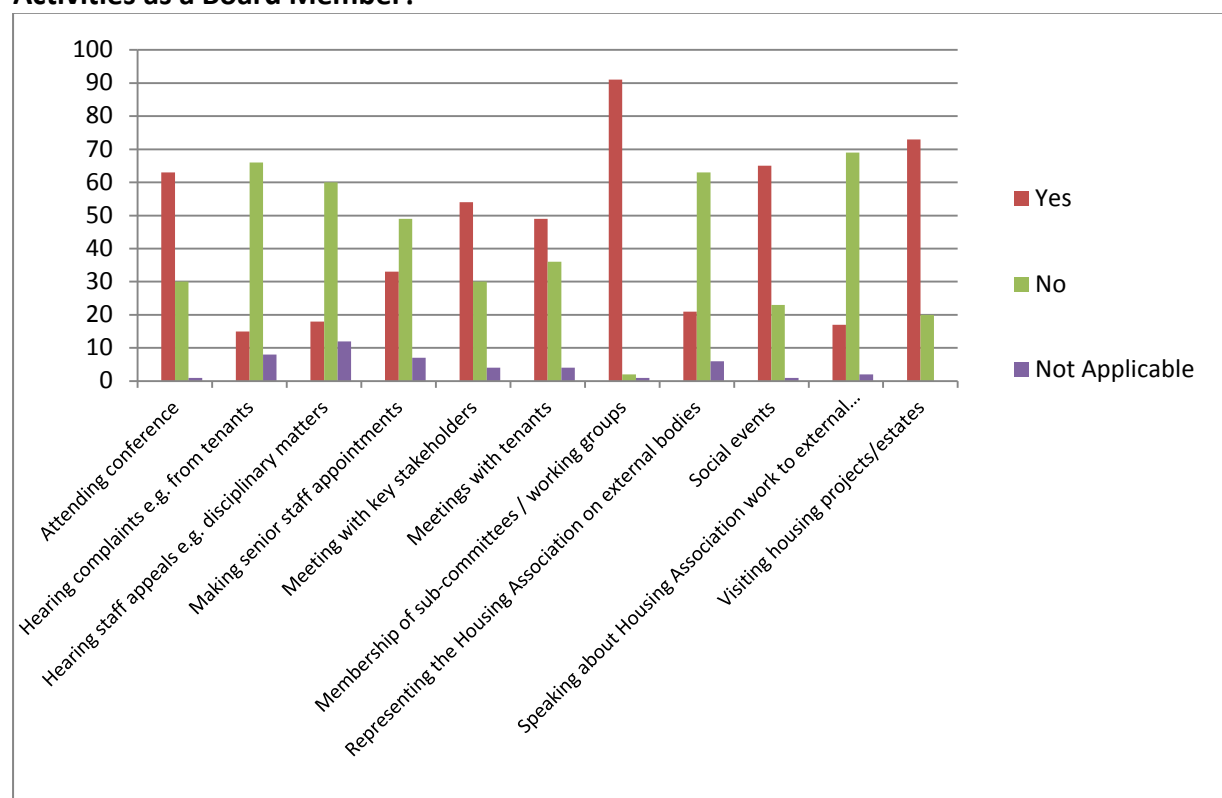
Figure 2: BM Survey - How Important of Unimportant Do You Consider the Following Roles in Relation to your own Role as a Board Member?



- Ninety-three per cent (93%) thought that 'ensuring ethical and legal conduct' was very important, (4%) fairly important, (2%) neither important nor unimportant and (1%) very unimportant
- Ninety-one (91%) thought 'reviewing and questioning managers' decisions was very important (62%) or fairly important (29%), eight per cent (8%) thought it was neither important nor unimportant and (1%) thought it was very unimportant

- Eighty-nine per cent (89%) thought that 'selecting, assessing and if necessary replacing the Chief Executive' was very important (70%) or fairly important (19%), seven per cent (7%) felt it was neither important nor unimportant and (4%) felt it was fairly unimportant (2%) or very unimportant (2%)
- Eighty-six per cent (86%) thought that 'increasing own knowledge of relevant topics' was very important (32%) or fairly important (54%), one-tenth (10%) thought it was neither important nor unimportant, and (4%) thought it was fairly unimportant (3%) or very unimportant (1%)
- Eighty-four per cent (84%) thought that 'representing the Housing Association to the outside world' was very important (38%) or fairly important (46%), eleven per cent (11%) thought it was neither important nor unimportant, and five per cent (5%) thought it was fairly unimportant (3%) or very unimportant (2%)
- Eighty-four per cent (84%) thought that 'providing expertise and advice to staff' was very important (33%) or fairly important (51%), twelve per cent (12%) thought it was neither important nor unimportant, and (4%) thought it was fairly unimportant (3%) or very unimportant (1%)

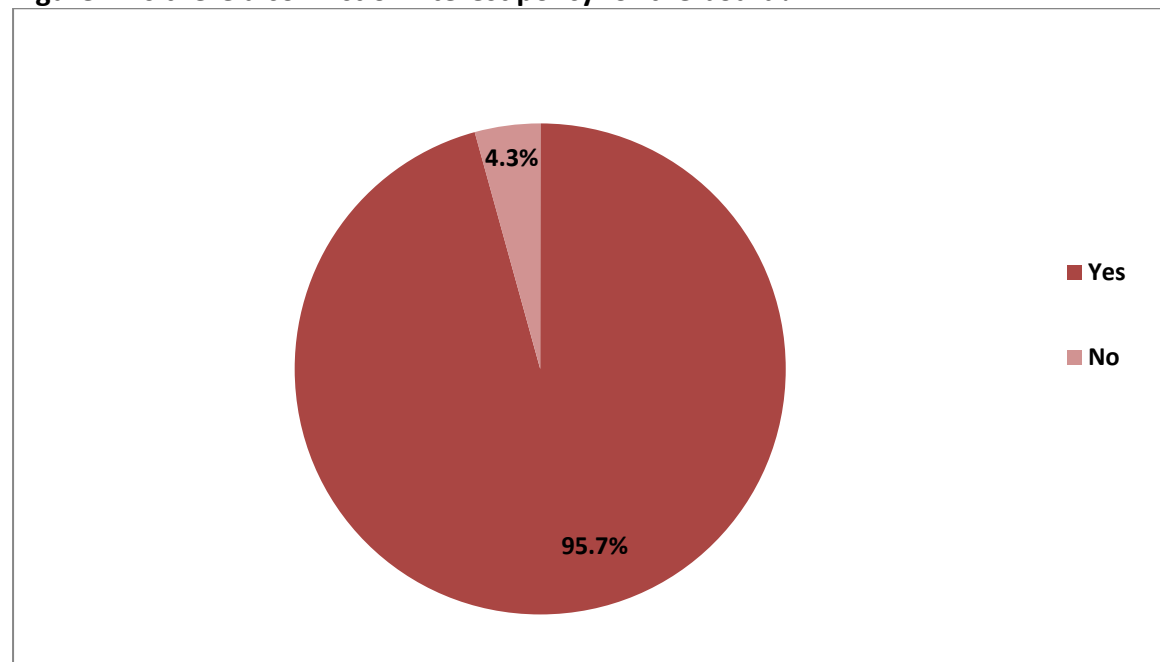
Figure 3: In the Last 12 Months Did You Participate in Any of the Following Activities as a Board Member?



- Ninety-seven (97%) of board members participated in the 'membership of sub-committees / working groups' and only (3%) had not
- Seventy-eight per cent (78%) stated 'visiting housing projects/estates' in the last 12 months and (22%) had not
- Almost three-quarters (73%) of board members participated in 'social events' compared to (27%) who had not

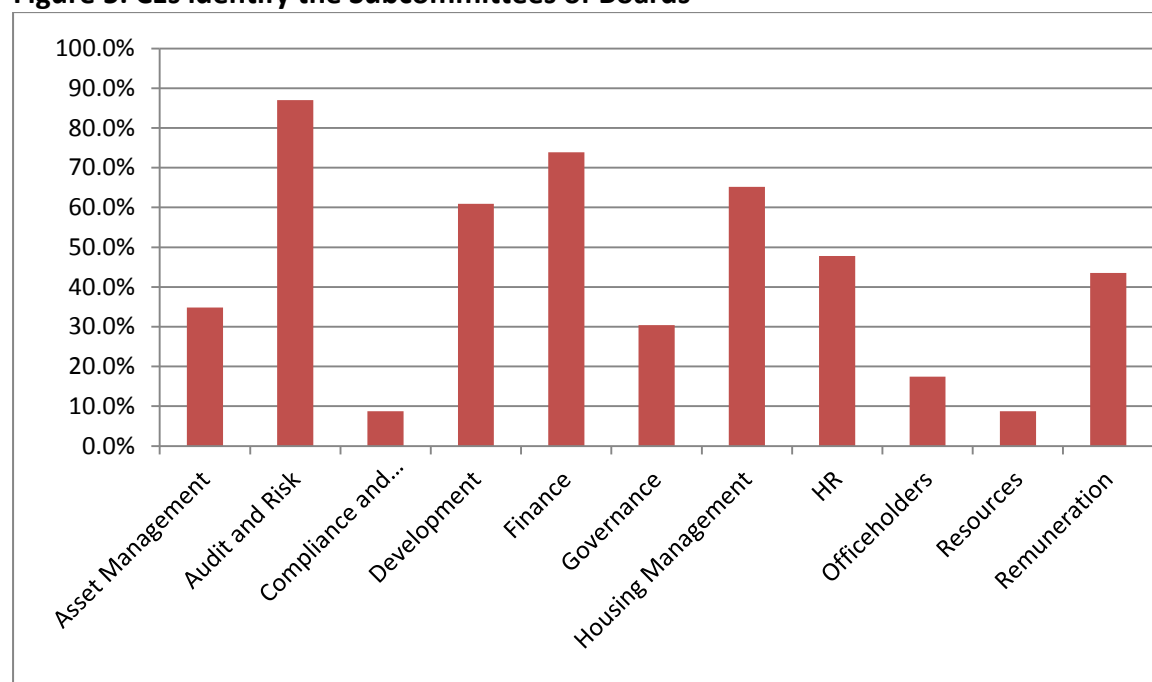
- Sixty-seven per cent (67%) of board members stated 'attending conference(s)' and a third (33%) had not
- Sixty-one per cent (61%) stated 'meeting with key stakeholders', one third (34%) had not and (5%) stated it was not applicable
- Over half (55%) stated having 'meetings with tenants', forty per cent (40%) had not and (4%) thought this was not applicable
- Thirty-seven per cent (37%) stated 'making senior staff appointments', compared to (55%) who had not and (8%) who thought it was not applicable
- Almost one-quarter (23%) stated 'representing the Housing Association on external bodies' in the last 12 months, seventy per cent (70%) had not and (7%) thought this was not applicable
- One-fifth (20%) stated 'hearing staff appeals e.g. disciplinary matters' in the last 12 months, two-thirds (67%) had not and (13%) stated this was not applicable
- Almost one-fifth (19%) participated in 'speaking about Housing Association work to external audiences' compared to (81%) who had not

Figure 4: Is there a conflict of interest policy for the board?



- Ninety-six per cent (96%) of Chief Executives reported having a conflict of interest policy for the board compared to (4%) - one chief executive - who reported not having a policy in place
- For some organisations the conflict of interest policy only covered external conflicts and for the majority it covered both internal and external conflicts
- Ninety-one per cent (91%) of CEs stated that board papers comprise a 'Declarations of Interest' at the start of meetings
- All (100%) reported having a code of conduct policy for board members

Figure 5: CEs identify the Subcommittees of Boards



- Audit and Risk (87%), Finance (74%), Housing Management (65%) and Development (61%) were the four most commonly reported subcommittees
- This was followed by HR (48%), Remuneration (43%), Asset Management (35%), and Governance (30%)
- The least reported subcommittees were Officeholders (17%), Compliance and Regulation (9%) and Resources Committee (9%)
- CEs also reported having Care Services and Corporate Services subcommittees and having committees which combined functions e.g. Finance and Corporate Services Committees; Support Services; Housing Committees; and an Operations Committee covering development, asset management and housing

2.1 Financial Management

The Global Accounts of Housing Associations presented by PWC at the annual NIFHA conference 2014 revealed the strong financial position of the sector, with a 28.6% increase in their combined surplus on the previous year (2012/13) from £21.4m to £27.5m. There was an increase in turnover of 9.7% during the same period from £185m to £203m and the number of people employed by housing associations full-time had increased by 3.7% (106 employees), from 2,853 to 2,959. (In discussion paper one, CEs highlighted that HR expertise is one of the main skills they believed to be lacking on their boards)

The amount of interest payable by Northern Ireland's 26 housing associations also increased resulting in a higher gearing ratio - which currently stands at 62.9% - compared to Scotland (20.2%), and Wales (58%) but lower than in England (86.8%). There is however variations in the gearing ratios of individual housing associations

across the sector. (This could potentially act as a motive for further mergers and/or group structures in the future)

DSD highlighted the importance of strengthening in depth financial expertise on Boards and of deepening non-finance experts understanding of finance when it reported in one inspection report¹:

“Ideally the Board should have several members who have a similar background and credentials in order to maintain adequate overview of the financial operations of the Association....The Team recommends that the Association recruits additional Board members with a background in finance and train or retrain existing board members”

The points below highlight some recommendations and best practice contained within DSD inspection reports 2012-2014 in relation to financial management.

DSD Recommendations in Financial Management

Budget and Cash Flows

- Development of a 25-30 year budget along with long term cash flows to be approved by the board
- Rolling cash flows to be updated at least monthly with costs and income profiled for 1-2 years
- A review of cash flows and budgets to include detailed assumptions of how cash flows/budgets have been estimated and profiled

Audit and Finance

- The Audit Committee and not the Finance Committee should have responsibility for dealing with auditors
- Examine the scope of all financial audits to ensure the association receives value for money and is able to gain assurance from the results
- Agree an Internal Audit Plan which should provide the association with an appraisal of its compliance with policies and procedures
- Concerns were raised in one case about the excessive employment of consultancy support. This was also raised by a senior official during stakeholder interviews in terms how this might undermine the independent decision making of boards. Another issue for Boards is who checks the consultants' work?

Fraud Management

- Fraud management policies need to be introduced with any cases of fraud or suspected fraud reported to the Department immediately

Treasury Management Policy

- Associations need to implement treasury management policies and have them approved by their Boards

Zero-based Budgeting

- The use of zero-based budgeting to all line items presented using anticipated spend rather than previous years spend to prepare budgets

¹ Round 3 Inspection of South Ulster Housing Association. Final Report. February 2014. Department for Social Development http://www.dsdni.gov.uk/south_ulster_r3_final_report_feb_14.pdf

Variance Analysis

- Explain variances between actual performance and budget in detailed narrative including why the variance arose and the impact it has had

Presentation of Information

- That the Board reviews the information it receives to ensure all relevant information is being presented in at correct level of detail in a clear and accessible manner for meaningful and useful review

Component Accounting

- Some concerns regarding how prepared a number of associations were in the switch to component accounting which is related to assumptions on replacement periods for different building elements of the assets

DSD Best Practice in Financial Management

- Monthly budgets and cash flows prepared for 5 years then annually up to 30 years
- Use of zero-based budgeting for completing budgets
- Use of an Excel register linking component additions, disposals, replacements, depreciation and housing association grant in line with SORP accounting requirements
- Cash flows updated each month in line with actual cash flows and reconciled to the bank balance

Discussion Points

What are the top 3-5 sector priorities now to skill up governance of financial management?

- How important are treasury management issues?
- How important is an overall framework for future investment (risk, rate of return (financial and social))
- Who needs to be involved? (balance of finance experts and other board members, need for separation of spend and audit roles)
- When financial information is presented to the Board, is there constructive and informed challenge by all board members?
- How would you characterize the financial literacy of housing association boards generally and what more can be done to help boards up their game on finance?
- Should associations produce value for money statements?
- Is zero-based budgeting good practice and appropriate for all HAs? Management responses given to recommendations in two relatively recent inspection reports show contrasting opinions

“The Association does not accept zero-based budgeting as being best practice, particularly in a service industry where the output of the association is more intangible than tangible”

“The Association operates a zero based budgeting system which it feels is critical given the levels of growth achieved. The Association.....feels that previous budgets/outturn performance could be misleading”

2.2 Asset Management

Asset Management and maintenance is another fundamental aspect of HA business. Assets are the key underpinning of HA business – keeping assets in good repair is the most fundamental determinant of tenant satisfaction – deciding which assets to buy and sell or repair and improve is amongst the most fundamental decisions Boards make and accounts for a high % of budgets (alongside staff and interest costs). It is therefore important that Boards understand and are on top of asset management strategy, stock purchase and sales; overall spend on planned and cyclical maintenance and repairs procurement. Just recently (January 2015) one of England's largest housing associations was placed on the HCA's 'gradings under review list' due to difficulties with repairs and maintenance². This was followed by a call from councillors for the Mayor to take legal action against the landlord over its repairs performance³.

Recent research in England has highlighted the importance of repairs and procurement as a driver of tenant satisfaction. Best practice cases have shown how by involving tenants in procurement decisions not only can tenants satisfaction be increased but substantial savings in procurement costs can also be achieved.⁴

During the initial stakeholder interviews many participants from the HA sector criticized the approach that has been taken in recent years to procurement. One stated: "I don't think procurement groups are working particularly well. They are bureaucratic, they are obstructive and we could achieve greater efficiencies just by getting on with it and we have made it clear to the Department that we would like to do our own procurement"⁵. With the Procurement Strategy under review there seems to be a desire to move towards higher level principles which would guide HA procurement activity rather than having a prescriptive strategy in place.

From the Department's perspective, inspection reports drew attention to a number of cases where HAs were falling short in relation to having Asset Management Strategies (AMSs) and Stock Condition Surveys (SCSs) in place. Such strategies are vital in ensuring that Boards can optimally and sustainably manage organisations' assets, expenditures and risks, and performance over their life cycles.

The points below highlight some recommendations and best practice contained within DSD inspection reports 2012-2014 in relation to asset management.

² <http://www.socialhousing.co.uk/circle-and-first-wessex-placed-on-regulators-watch-list/7007726.article>

³ <http://www.insidehousing.co.uk/councillors-call-for-legal-action-against-circle/7008062.article>

⁴ Bliss, Lambert, Halfacre, Bell and Mullins (2015 forthcoming). An Investment not a Cost. The Business Benefits of Tenant Involvement.

⁵ This was largely confirmed by independent research on procurement groups for NIHE Mullins, D., Muir, J. and Acheson, N. (2013) *Third Sector Housing Partnerships in Northern Ireland: Commissioned Report for the Northern Ireland Housing Executive*, Belfast: Northern Ireland Housing Executive. This appears to have been recognised in subsequent changes in procurement policy.

DSD Recommendations in Asset Management

Asset Management Strategy

- It was highlighted in a number of inspection reports that there were no AMSs in place; and no reference was made to an AMS in Corporate Strategies, Business Plans or in Cyclical or Planned Maintenance Programmes

Stock Condition Survey

- To undertake (SCSs) to assist the development of a comprehensive planned and cyclic maintenance programme, including budgets and timescales over a 25-30 year period to help minimise risk to the existing stock and tenants

Procurement

- That the HA produces an audit plan that will fully assess its maintenance function benchmarked against the Department's own procurement requirements and regulatory framework

Skills and Expertise

- That the in-house level of expertise and knowledge of the DSD Procurement Guide and Housing Management Guide is immediately reviewed along with staff resources and the need for professional / technical support

DSD Best Practice in Asset Management

Maintenance

- One HA was commended for having a three year Major/Planned Maintenance Programme prepared in advance and reviewed annually; and for having a concise but focused AMS
- Included in one HA's maintenance contract was a requirement for the contractor to provide a dedicated member of staff, within the Association, to act as a Tenant Liaison Officer between the tenants, the contractor, and the association. This helped ensure the smooth running of the contract
- The preparation of monthly reports for the Finance Officer and the Chief Executive which are discussed with the Development & Management Subcommittee/Board providing them with regular updates on progress
- The use of scorecards to grade planned, cyclical and servicing maintenance work
- A daily report of all response maintenance orders collated and forwarded to respective Property Services Officer (PSO) at end of day for information.

Discussion Points

What are the top 3-5 sector priorities now to skill up governance of asset management?

- How important is Asset management?
- How important is Procurement?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- Is the current prescriptive nature of procurement eroding the independence of Boards? What principles should guide HAs in their procurement activities?
- Are Boards fully aware of the staffing requirements and expertise needed for technical areas like asset management and procurement?
- Surveying was a key skills gap identified by CEs and BMs as lacking in boards in discussion paper one. Given the issues raised by the DSD regarding Asset Management Strategies and Stock Conditions Surveys, do Boards need to focus more of filling the surveying/technical gaps that currently exist?
- Are tenants sufficiently consulted on and involved in the procurement of repairs and other services?
- Are there any other obstacles in place that make Board awareness and monitoring of property management/maintenance difficult?

2.3 Property Development

Global Accounts for the sector revealed that last year (2013/14) total stock had risen by 5.4% from 41,948 to 44,210 homes – an increase of 2,262 homes. Despite the continued development success of the sector, it was evident from the stakeholder interviews that there remain significant barriers to development. These included NIMBYism from local residents, difficulties in acquiring suitable sites, as well as the prescriptive nature of the procurement strategy (outlined above), all of which restrict the full development potential of the sector.

Stakeholders also indicated that to achieve this year's ambitious new build target (subsequently revised from 2,000 to 1,500) and to keep pace with rising levels of housing need more associations need to be involved in the development programme. The Commission on the Future for Housing⁶ (2010) reported that only one third of housing associations are involved in development activity and NIFHA Chief Executive, Cameron Watt, reported in his NIFHA 2013 conference speech⁷ that 80% of the development programmes are delivered by four of the larger housing associations. This again raises the argument for further sector collaboration to maximize the gearing and un-mortgaged asset potential of non-developing associations.

⁶ Independent Commission on the Future for Housing (2010). Chartered Institute of Housing <http://www.cih.org/resources/PDF/NI%20policy%20docs/Housing%20Commission%20Report.pdf>

⁷ CEO Address to NIFHA Conference 2013 <http://www.nifha.org/nifhanews/nifha-ceo-address-2013/>

In recent years attention has been drawn to major shortcomings around housing association development programmes. Highlighted by both DSD inspection and media reports, key concerns have centered around the development potential of a small number of sites; developments being progressed without full/outline planning permission and lacking appropriate community consultation. These issues, deemed to be high materiality by the DSD, also gave rise to concerns about the level of information that was being received by Boards and the ineffectiveness of Boards to exercise their challenge function “*despite.....being made up of adequately skilled members*”.

The points below highlight some recommendations and best practice contained within DSD inspection reports 2012-2014 in relation to property development.

DSD Recommendations in Property Development

Development

- More involvement of the HA’s development committee which has responsibility for approving and monitoring the delivery of its development programme
- Terms of Reference for the Development Committee should be enhanced to receive regular scheme update reports on progress and that they approve the acceptance of tenders, increased costs, financial losses and final accounts
- One inspection found significant delays to be common in progressing scheme proposals mainly due to planning and financial viability issues and stated that the impact of these may have been mitigated if feasibility studies had been conducted, and if the HA had not placed a high reliance on the advice of its consultant who at times was acting on behalf of the vendor
- The importance of assessing development potential and estimating capital costs; revising Design Briefs (including ESP design standards); planning consultations; non-qualifying costs; the use of the disposal proceeds fund; contract guarantee bonds / builder insolvency cover; and contract management was stressed
- One recommendation advised the use of a template for development feasibility reports to include: economic appraisals; valuations; site acquisition / other development costs; abnormalities; non-qualifying costs / funding; a time-frame for the completion of the project; the proposed method of procurement; and, the application for project approval

DSD Best Practice in Property Development

Project Management

- The adoption of a pro-active approach to project management to ensure risks are managed through fortnightly project update meetings, led by the Chief Executive and attended by the Senior Management Team

Expertise

- Having well resourced, qualified and highly experienced in-house development teams led by a qualified procurement professional and supported by an in-house registered architect and experienced development manager was commended.

(Architectural expertise was a skills gap identified as lacking on Boards by CEs in Discussion Paper One)

- Having a training and development programme which focused on delivery of the HAs development programme taking into account the construction procurement policy framework

Risk Management

- One association was applauded for using a traffic light system to identify potential high risk projects that may have to be aborted or where the delivery may have to be postponed. (This paper queries whether Boards need to move beyond this to focus on a more holistic investment decision process which covers risk and return and tracks implementation of investment decisions)
- The Department commended one Board for demonstrating risk control management when it reduced the association's risk appetite by concentrating on transfer sites; or sites which already had full/outline planning permission. (This seems at odds with the Department role in setting an ambitious new build target and harnessing unmortgaged assets of non-developing HAs).

Performance

- The use of key performance indicators and balance scorecards to monitor performance regarding development which were reviewed monthly against business plan objectives

Processes and Procedures

- Having effective development processes and procedures which are supported by an Integrated Management System (IMS) and independently accredited to quality assurance standards

Points for Discussion

What are the top 3-5 sector priorities now to skill up governance of development?

- How important is it to balance risk appetite with harnessing assets for new build?
- How important is it for Boards to control and monitor investment decisions and implementation?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- Should Boards of non-developing associations be encouraged to participate in the development programme?
- What is currently preventing them from being part of the programme?
- Does the sector need to upscale capacity in order to realise its development potential e.g. through partnership, collaboration, mergers, group structures?
- Should tenants be involved in the work of Development Committees? Best practice cases have shown how by involving tenants in procurement decisions not only can tenants satisfaction be increased but substantial savings in procurement costs can also be achieved.⁸

⁸ Bliss, Lambert, Halfacre, Bell and Mullins (2015 forthcoming). An Investment not a Cost. The Business Benefits of Tenant Involvement.

2.4 Housing Management

The Welfare Reform Bill for Northern Ireland has now reached consideration stage in the Northern Ireland Assembly. Previous Minister for Social Development, Nelson McCausland secured certain concessions which were credited for helping both tenant and organisations avoid increases in arrears. Despite a reported mitigation fund of £30m to assist vulnerable households adversely impacted by these reforms, a study by the Welsh Audit Office revealed that a rise in poverty, debt and exclusion all coincided with the introduction of welfare reform measures, and other research by Sheffield Hallam University⁹ has reported that £750m a year will be taken from the NI economy when the reforms take full effect. This will be another considerable challenge facing HA Boards in future as regulatory standards accentuate finance, consumer and governance standards and possibly even a rent setting policy.

Northern Ireland's twenty-six housing associations are currently delivering services to over 40,000 tenants and leaseholders. The Housing Partners Big Tenant Survey¹⁰ results of 61,000 respondents from across the UK revealed that the overall impression is one of poor lines of communication between landlords and tenants. The same survey also revealed that only 34% of tenants in NI are satisfied with their landlord, the lowest scoring region in the UK alongside London. Twenty-six per cent (26%) of respondents felt that their landlord listens and acts on their views, (23%) were likely to recommend their landlord to a friend or relative, and (50%) were proud of their home, again the lowest scoring levels of satisfaction across the UK outside of London. These are contrast to NIFHA's own figures which indicated satisfaction levels of (84%) across 25 housing associations.

The DSD's draft 'A Tenant Participation Strategy for Northern Ireland 2015-2020'¹¹ makes a commitment to provide guidance on effective tenant involvement in governance and board membership and states that landlords will be assessed and inspected against the (presumably consumer) standard set out in regulation. It also states that social landlords should have in place strategies or methods for tenant participation by April 2016. Boards will have an increasingly important role to play in developing methods to encourage and support more tenant participation, empowering tenants to have greater input into how their services are designed and delivered in future.

⁹ Beatty, C & Fothergill, S. (2013) The Impact of Welfare Reform in Northern Ireland. Northern Ireland Council for Voluntary Action &

¹⁰ Big Tenant Survey 2014 Summary Report (2014) Housing Partners.

<http://bigtenantsurvey.housingpartners.co.uk/get-the-report.html>

¹¹ A Tenant Participation Strategy for Northern Ireland: 2015-2020. A Draft for Consultation. Department for Social Development www.dsdni.gov.uk/shrp-tenant-participation-consultation-document.pdf

The Public Accounts Committee also recently produced a 'Report on Tackling Social Housing Tenancy Fraud in Northern Ireland'¹². The report concludes that social housing providers in Northern Ireland have not reacted efficiently enough to the 'increased recognition of tenancy fraud in GB' although it continues to say that it takes some comfort from the range of measures being proactively adopted by HAs to tackle the issue. In presenting its recommendations it is clear that the Public Accounts Committee sees a key role for Boards in addressing this issue. Stating its support of the National Fraud Initiative the Committee stated that it expected all HAs to participate; it recommended that performance targets be included in the regulator's inspection regime for HAs; and suggested careful consideration of an 'Invest to Save' initiative that would provide additional funding for effective prevention, detection and investigation of fraud.

The points below highlight some recommendations and best practice contained within DSD inspection reports 2012-2014 in relation to housing management.

DSD Recommendations in Housing Management

Welfare Reform

- Analysis needed on how HAs intend to manage any adverse financial impact

Customer Satisfaction

- All Customer Satisfaction Survey results and detailed action plans should be reported to the Board

Fraud

- HAs should have in place policies and procedures for managing fraud including a dedicated Tenancy Fraud Strategy and Response Plan. Tenancy Fraud has also received attention from the NIAO¹³ and Public Accounts Committee)

Allocations

- Associations should ensure that it completes all allocations in compliance with the NIHE guidance on the use of transfers
- A recommendation was made that properties are allocated to households in accordance with the appropriate number of bedrooms required

Joint Management Agreements (JMAs)

- JMAs should be agreed and signed by parties involved with copies of all paperwork and email correspondence retained on file

Community Consultation

- HAs should ensure that it carries out appropriate community consultation at the earliest opportunity in an open, transparent and genuine manner to include both leaflet drops and public meetings with the local community

Complaints Policy

¹² Report on Tackling Social Housing Fraud (2014). Public Accounts Committee
<http://www.niassembly.gov.uk/globalassets/Documents/Reports/Public-Accounts/Report-on-Tracking-Social-Housing-Tenancy-Fraud-in-NI.pdf>

¹³ Tackling Social Housing Tenancy Fraud in Northern Ireland (2013) Northern Ireland Audit Office.
http://www.niauditoffice.gov.uk/index/publications/report_archive_home/2013/housing_tenancy_fraud.pdf

- Associations should review their complaints policies and procedures and ensure that a separate complaints register is maintained. This should include the date of the received complaint, name and addresses and signatures of staff completing the record
- Complaints should be reported to the Housing Management sub-committee and included as a standing item on the sub-committee agenda

DSD Best Practice in Housing Management

Arrears Recovery

- Following a fundamental review of its Arrears Policy one HA introduced a Monthly Arrears Focus Week. Each month the HA sets aside a week whereby all Housing Management staff focus on arrears recovery. The housing officers have Ipad connectivity to the HA's server which enables them to access rent accounts and collect payment

Welfare Reform

- Some HAs were commended for collaborating with banks to set up basic bank accounts for tenants
- Early analysis of the tenant profile to help plan for welfare reform, followed by letters and information sessions to advise those likely to be affected was commended as was the HAs early planning on how to deal with WR from an organisational/staffing perspective
- Trying to match house size with the number of occupants when allocating properties

Arrears Management

- Continued and comprehensive training provided to housing management staff was considered to be best practice
- Collaboration with the Consumer Council to make Credit Union loans more affordable and accessible than payday lenders

Points for Discussion

What are the top 3-5 sector priorities now to skill up governance of housing management?

- How important is the tenant participation strategy?
- How important is it for Boards to be aware of its implementation on estates and in communities?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- How are Boards preparing for changes to welfare reform?
- There is now an increased focus on tenancy fraud. How are Boards responding?

2.5 Corporate Governance

The Department's Governance Guide¹⁴ defines governance as "the systems and processes concerned with ensuring the overall direction, effectiveness, supervision and accountability of an association". The substantive recommendations contained in recent inspection reports focus on strategic and business planning, performance monitoring, training of board members, and the importance of having an agreed internal audit plan. The specificity of other recommendations once again raises questions around the balance of performance and conformance roles of Boards and whether or not there is a case for making compliance a champion role for certain board member(s), thereby freeing up the whole Board to focus on performance.

The points below highlight some recommendations and best practice contained within DSD inspection reports 2012-2014 in relation to housing management.

DSD Recommendations in Corporate Governance

Strategic and Business Planning

- HAs should produce a 3-5 year corporate plan with corresponding yearly business plans
- The Department recommended in one case that the Board formally approves both the Strategic and Business Plans, reviews the Business Plan to include appropriate KPIs/target dates, and receives regular updates to ensure targets are being monitored

Induction and Training for Board Members

- The Department recommended a review of HA's induction plan for new board members in accordance with the Department's Governance Guide
- A Skills Audit to be conducted to include the newest board members and then reviewed regularly or each time there is a change of personnel on the Board
- A Training Plan to be drawn up to address any shortcomings in the knowledge of the Board and where identified, training to be offered to all BMs to address these shortcomings

Internal Audit

- The absence of a structured internal audit function was raised as a concern with the Department reporting that the Board should seek an audit service to provide ongoing independent assurance on the performance of the HA. A recommendation was made to tender for the services of an Internal Auditor

Sub Committees

- The Department highlighted that whilst members of the Senior Management Team should be in attendance at sub-committee meetings, it is the responsibility of the BMs to challenge the information presented; and in its recommendation stated that the association should revisit the Terms of Reference to ensure the quorum is made up only of Board members

Co-opting Members

¹⁴ Governance Guide. Department for Social Development http://www.dsdni.gov.uk/index/hsdiv-housing/ha_guide/haggg-contents.htm

- One HA was criticised for operating outside its own rules and policies in respect of having more shareholders on the Board and co-optees on a sub-committee than allowed by its own rules and policies
- It was stressed that co-opted members should not deliberate/vote on matters affecting the membership of the association and/or the election of officers

Use of Consultants

- The Department recommended that the Board reassesses the basis on which it engages consultants to ensure that there is an appropriate transfer of skills/knowledge to the association's staff with a view to reducing future consultancy requirements

DSD Best Practice in Corporate Governance

Recruitment of Chair

- The recruitment a Chairperson through external advertisement was deemed to be good governance practice by the Department, stating that it indicated a willingness of the Board to secure the best candidate for the job

E-Governance

- Some associations operate members' sites which allow BMs to access all papers and relevant documentation prior to meetings. Historic papers for Board and Sub Committees are retained on this site for future reference

Scenario Planning

- Scenario based planning is a key method to engage board members in the 'what if?' questions that are central to any long term strategic planning and can be being applied to key assumptions within budgets and cash flows as well as more broadly in relation to possible future strategic decisions.

Points for Discussion

What are the top 3-5 sector priorities now to skill up on corporate governance?

- How important is it for strategy formulation, scenario planning and other 'big picture' roles to outweigh operational issues in board agendas?
- How can Boards best manage regulatory compliance while focusing on performance? What impact will scaling up and moving toward more performance based models have for sector governance?
- Who needs to be involved in governing these processes? (role of boards, skills mix, role of experts (internal and external), role of tenants)
- Can HAs work smarter on regulatory compliance by including board members with expertise in this area and giving them a champion role? (this could help deal with the need to demonstrate **conformance** while freeing up the board as a whole to be more focused on **performance**)
- What impact will diversification and managing risk, along with developing investment strategies that cover all areas of the business (not just new housebuilding) mean for sector governance?
- Is the I&P model the best legal framework for housing associations in Northern Ireland? Should they be exempt from registration with Charity Commission NI?

3.0 Conclusions and Implications for Governance

This paper has covered recent recommendations and best practice in relation to what HA boards regulate. The final section on corporate governance recommendations began to take us towards the conclusion of this project which in our view is about defining the boundaries of governance and regulation in the light of recent changes in the HA sector and its context in NI.

We therefore end the paper with some more general reflections on the relationship between governance and regulation and the implications this has for board skill. Quinn and Rohrbaugh's (1983) management model on competing values of organizational effectiveness has been adopted in the final section to help understand some of the dilemmas facing HAs Board in pursuit of governance effectiveness.

We then invite workshop participants to return to the question – where have we got to now? – and to reflect on recent governance reforms and practices, and the work that still needs to be done in relation to the key functions discussed here:

- Roles of Boards/Board Members/Sub-committees
- Financial Management
- Asset Management
- Property Development
- Housing Management
- Corporate Governance

By building on the answers to the key questions in sections 2.0 of this discussion paper we can now set an agenda for further work required on what we govern.

3.1 Competing Values of Organisational Effectiveness

Quinn & Rohrbaugh (1983) developed a management model for organizational effectiveness derived from three competing value dimensions (internal versus external; stability versus flexibility; and means versus ends¹⁵).

- The first value dimension relates to an organizational focus, from 'internal' emphasis on the well-being and development of individuals in the organization to an 'external' emphasis on the organization as a tool to achieve business goals in response to external opportunities and threats.
- The second dimension relates to organizational structure, based on values of 'stability' and 'flexibility' (order and control do not mix well with innovation and change)
- The third dimension focuses on organizational 'means' and 'ends', emphasizing tendency of internal processes (e.g. audit and compliance) to

¹⁵ These competing values are accepted dilemmas in management and organizational studies literature

take on a life of their own and the expense of (ends) goals and outcomes the organisation is seeking (e.g. more and better homes, social inclusion).

From these three competing values a more detailed management model is created to manage fundamental tensions between flexibility and control and internal and external orientation. These include the Human Relations Model; Open Systems Model; Internal Process Model and Rational Goal Model. These are now used in order to help understand the dilemmas facing HA boards in their pursuit of governance effectiveness.

Role of Boards/Board Members/Sub-committees

The overwhelming majority of BMs considered the role of Boards to be about ensuring the financial viability of the HA; determining its strategic objectives; monitoring its performance against objectives; ensuring the organization is involved in meeting housing need; judging priorities for spending and setting standards for service (see Figure 1). These priorities fall primarily within Quinn and Rohrbaugh's (1983) **Rational Goal Model** which places a significant emphasis on control with an external macro focus, with planning and goal setting as means and productivity as the end. However, in contrast the **Open Systems Model** prioritises flexible readiness to grow through resource acquisition, which implies less audit and compliance and more entrepreneurship and fleetness of foot.

The dilemma posed here for sector governance is how best to achieve the balance between the Rational Goal Model (**conformance**) and the Open System Model (**performance**) of organizational effectiveness which emphasizes flexibility and readiness as means and growth, securing resources and external support as ends.

A second dilemma between the competing value dimensions of internal/external and means/end is around achieving the balance between **business efficiency** and **community accountability** which will become an increasingly important role for Boards as the Tenant Participation Strategy is finalized and implemented.

BMs when considering the importance of their individual roles (as opposed to the Board as a whole) tend to place much more emphasis on the internal, person-oriented value of prioritizing things like ethical and legal conduct; reviewing and questioning managers' decisions; selecting, assessing and if necessary replacing the CE; increasing their own knowledge of relevant topics; representing the HA to the outside world; providing expertise and advice to staff; monitoring performance in equal opportunities; acting as the voice of the community and increasing confidence and personal skills (see figure 2 above).

The importance that BMs assign to their individual roles therefore suggests the **Human Relations Model** is appropriate too. It places greater emphasis on flexibility and internal focus, stressing criteria such as cohesion, morale, avoidance of conflict (as means) and induction, training and development, HR development issues (as an end).

The dilemmas for HA Boards in respect of their pursuit of governance effectiveness under the Human Relations Model is twofold. Firstly, under this Model HA BMs face a dilemma between **partnering** (Human Resources Model) or **controlling** executives (Internal Process Model) and secondly, addressing the anomaly between non-executives **representing interests** (Open Process Model) versus **professionalizing** (Human Relations Model) boards (as recommended in DSD inspection reports discussed earlier in this paper.)

The majority of stakeholder participants also reinforced the imbalance of the means/end value dimension (**Rational Goal Model**) suggesting that the current approach to regulation is very much compliance based, focused on processes rather than outcomes and creates a culture of risk aversion rather than achieving organisational missions and sector goals.

The implication of regulatory reform for Boards will be the need for greater focus on outcomes and to accept the challenge of being more transparent and accountable for decision making. As greater primacy is afforded to Boards should the Department take a more hands off role but have greater powers to appoint board members in the case of failed inspections before the need to have an Inquiry? Both the Homes and Communities Agency (HCA) and the Scottish Housing Regulator (SHR) have appointed board members/special managers recently as a trade-off for the move to a lighter-touch, risk based approach to regulation. This fits the idea of 'earned autonomy' in which well performing organisations are freed to focus on performance provided that they deliver.

Financial Management

In the voluntary sector literature, Harrow and Palmer (2003)¹⁶ have argued that voluntary boards face a predicament when making financial decisions as the legal framework requires everyone to act collectively which presupposes BMs have a mutual understanding and shared expertise in reaching decisions.

They contend that financial literacy is often unevenly distributed meaning other members' dependence on the financial experts can lead to disparities in collective decision-making. The implications of this for Boards is how to address variance in differential skills, particularly if regulatory standards focus more on finance and governance; and how to reconcile the trust placed in the financial experts by the non-finance experts as HAs adopt more complex business and financial models.

Strategically, a key focus for Boards is making investment decisions. Therefore a key question is to what extent BMs are involved in the appraisal of new business opportunities based on risk, financial return and social return? Have Boards got in place holistic and robust financial frameworks to inform future investment decisions? This is just as critical as treasury management overviews of existing loan portfolios and ensuring compliance with lender covenants.

¹⁶ Harrow, J & Palmer, P. (2003) The Financial Role of Charity Boards. In Cornforth, C. ed. *The Governance of Public and Non-Profit Organisations. What Boards Do?* Oxon: Routledge

Asset Management and Property Development

Procurement rules are currently being drafted that will enable housing associations greater freedoms when entering contracts. Muir & Mullins (2015)¹⁷ reported (based on a research study of procurement groups in Northern Ireland carried over a two year period) that the use of mandated procurement partnerships alter the balance between trust and power in partnership working, the key tension of which is the balance between being accountable for public resources and preserving the independence of the third sector. Armistead and Pettigrew (2008) describe voluntary partnerships as having greater levels of flexibility with harmonious decision making, along with inherent ownership which leads to more bespoke and efficient practices and processes suited to the needs of each partner.

There were clear frustrations around the prescriptive approach to mandated procurement partnerships during initial stakeholder interviews particularly the regulations around the use of contracts. There appears now to be an appetite to move beyond a strategy, which should provide housing association Boards with the autonomy and flexibility of decision-making needed for more effective and efficient service delivery. Key challenges for sector governance will continue in respect of housing development particularly overcoming the many obstacles that make it difficult for HAs to participate in the programme. Other challenges facing Boards will be decisions around the need to upscale and for further collaboration as funding and financial pressures continue.

Housing Management

In respect of Housing Management, Boards will be expected to up their game in respect of tenant engagement under proposals outlined in the Department's Tenant Participation Strategy. The attention on tenancy fraud by elected representatives will continue to be a key priority for the regulator in the short-term and now that the Welfare Reform Bill has moved to the Consideration Stage, HAs Boards will need to demonstrate that they are able to cope with any social and/or economic repercussions of this reform programme particularly as a new regulatory framework looks set to prioritise finance and consumer standards.

Going back to the Quinn and Rohrbaugh model, this suggests the need for a reemphasis of a human relations approach to build cohesion and develop the human resource of a wider range of actors alongside an open systems approach based on flexibility and outcomes.

¹⁷ Muir, J. & Mullins, D. (2015) The Governance of Mandated Partnership: the case of social housing procurement. Housing Studies Forthcoming (Soon be available as an iFirst paper)

Corporate Governance - Fit for Purpose over the next five years

Where have we got to and where do we need to focus?

Is it now possible to answer the following three questions and thereby set the agenda for our final report and for the Conference in May?

- 1. Which of the five functions reviewed today are the most critical for HA governance in NI? (considering their importance to the effective operation of the sector and managing future risk?)**
- 2. What progress has already been made in modernising governance in these functions?**
- 3. What more work needs to be done if we are to have governance structures and processes that are fit for purpose for HAs in NI for the next five years?**

ⁱ The Following Inspection Reports were reviewed and used to inform this discussion paper. They can be viewed on the DSD's website: http://www.dsdni.gov.uk/index/hsdiv-housing/registered_housing_associations/housing-rha_inspection_programme/rha_inspection_reports.htm

Round 2 Normal Inspections

Helm Housing Association January 2012
Oaklee Housing Association February 2012
Triangle Housing Association June 2012
Ulidia Housing Association June 2012
Flax Housing Association October 2012
Abbeyfield Housing Association December 2012
Wesley Housing Association March 2013
South Ulster Housing Association April 2013
Ark Housing Association June 2013
NI Co-Ownership Housing Association September 2013
Hearth Housing Association May 2014

Round 2 Follow Up Inspections

Rural Housing Association February 2012
Habinteg Housing Association March 2012
St Matthew's Housing Association April 2012
Open Door Housing Association August 2012
SHAC Housing Association August 2012
Helm Housing Association March 2013
Rural Housing Association March 2013
Covenanter Housing Association May 2013
Grove Housing Association July 2013
Rural Housing Association – Property Management Follow Up June 2014

Round 3 Normal Inspections

Fold Housing Association October 2013
St Matthews Housing Association February 2014
Clanmil Housing Association May 2014
Apex Housing Association May 2014
Habinteg Housing Association August 2014

Round 3 – Follow Up Inspection

Helm Revised Round 3 Follow Up Inspection October 2013
South Ulster Housing Association February 2014
Harmony Homes Housing Association October 2014