

In-depth assessments

An advice note for housing associations



Acknowledgements

This guide draws on the experience of housing associations and staff at the Homes and Communities Agency (HCA) who were involved in the pilot of in-depth assessments.

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- Ken Youngman, Family Mosaic
- Craig Daniel, Great Places Housing Group
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- Nick Atkin, Halton Housing Trust
- Paul Edwards, Havebury Housing Partnership
- Nasreen Hussain, Soha Housing
- Juliet Craven, WDH
- Mick Warner, HCA.



Put yourself in the shoes of the regulator – think about what you would need to see to be satisfied that your association is fully compliant with the standards”,

Waqar Ahmed, Group Finance Director, London and Quadrant Housing Trust.



Top tips

- “Approach the IDA as a learning experience – see it as an opportunity to get assurance about the things you’re doing well and to help identify areas where you can make further improvements”, Charlie Norman, Chief Executive, St Vincent's Housing Association.
- “Continue to be open and transparent – show the HCA that you can and are capable of identifying any areas for improvement. After all nothing is perfect, and it is good to demonstrate that you’re always looking for improvements and are taking the necessary steps. See the IDA as an opportunity to continue to maintain an honest relationship with the regulator”, Nasreen Hussain, Director of Finance and Resources, Soha Housing.
- “Be aware of your key risk areas – think about what kind of questions you’d want to ask if you were the HCA and agree responses with your board/team. This will help you to feel confident and prepared ahead of the IDA”, Ken Youngman, Group Finance Director, Family Mosaic.
- “Be organised – put a project plan in place so you know how the process will work internally and prepare your key documents now”, Kim Humberstone, Resources Director, GreenSquare Group.
- “Evidence your decision-making process – make sure the minutes of your board meetings are capturing the depth of discussions leading up to the decision, not just recording the outcome. The HCA are interested in governance applied rather than governance in the abstract”, Craig Daniel, Assistant Director for Continuous Improvement, Great Places Housing Group.

Introduction

In June 2015, the Homes and Communities Agency (HCA) set out some key changes to their regulatory approach, including the introduction of in-depth assessments (IDAs) for housing associations with 1,000 homes or more. As the name suggests, IDAs will take an in-depth look into housing associations' businesses to ensure that they are complying with the economic standards. The HCA piloted this approach with 12 housing associations between February 2015 and August 2015 before it was rolled out to the whole sector in the autumn.

This resource is intended to give a brief overview of the IDA process so that you know what to expect from the assessment, and to provide advice about how best to prepare. This includes steps you can take now, advice about what to do when the HCA notifies you that you will be having an IDA, and top tips from housing associations that have already experienced an IDA. This advice note draws on the experience of the housing associations involved in the IDA pilot, and the HCA, to help ensure you are well prepared for an IDA.

Where do IDAs fit into the regulatory process?

Most housing associations will have an IDA once every three to four years; although where the HCA has particular concerns about an association's risk profile they could conduct assessments more frequently.

Alongside IDAs the regulator will assess associations' compliance with the standards through Quarterly Surveys, which provide a regular source of information about associations' financial health, and Annual Stability Checks, which use information from existing regulatory returns, including the Financial Forecast Return and the annual accounts. This is to check whether current regulatory judgments may need to be revised. Where this is the case, the HCA will follow up with the housing association and may initiate an IDA.



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Introduction

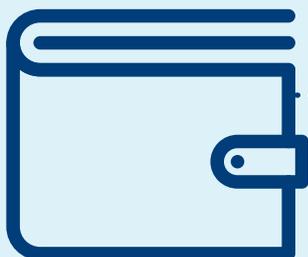
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Two key principles underpin the HCA's current approach to regulation:

- **Co-regulation:** This is the recognition that housing associations' board members are responsible for ensuring that the business is managed effectively, and it means that the onus is on housing associations to demonstrate their compliance to the regulator.
- **Transparency:** The HCA expects associations to provide them with information related to their non-compliance or potential non-compliance with the standards. This is a fundamental part of the co-regulatory approach.



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IDAs are a core part of the current regulatory process, and the HCA expects housing associations to take a serious approach to assessing their own compliance with the standards, regardless of whether they are expecting an IDA.

What is an IDA and what can I expect the assessment process to look like?

It is important to remember that an IDA is a bespoke process that is designed to be adapted depending on the size, risk profile and other characteristics of each association. This means that no two IDAs will be exactly the same, and what the regulator focuses on in one association's assessment may be different to another.

Each IDA is conducted by a small team, which is led by a senior member of staff who is supported by staff with a range of skills appropriate to the profile of the association. It is fairly likely that this team will include your usual contact at the regulator; however, this may not be the case every time.

Each assessment will largely follow the same format, which can be broken down into three main stages.

Stage one

Notification and document request

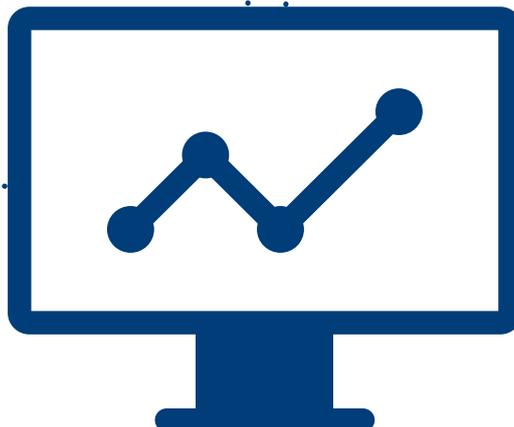


The HCA will notify the housing association in writing that they intend to carry out an IDA. In general, the HCA will give six weeks' notice of its intention to carry out an IDA and to discuss the planned process, although occasionally they may need to carry out an IDA at short notice. This is likely to occur when the HCA has identified reasonably urgent issues at an association and where they consider an IDA to be the best approach to assessing these issues further.

In due course the HCA will provide the association with a list of documents that they will need to provide by a set deadline. Associations will generally have around two weeks to share these documents with the HCA via NROSH+, the HCA's data collection website.

The documents list will include a short explanation of why the specified documents have been requested, linking to the standards that are under assessment. This will help to provide the association with some context and enable them to provide any additional supporting documents that are necessary to demonstrate their compliance with the relevant part of the standard. The scope of the IDA will be shared before the on-site work begins.

All of the documents requested will be ones that the association is expected to have already, therefore this stage of the process should primarily be one of gathering the relevant information, briefly reviewing and cross-checking documents to ensure consistency, and using NROSH+ to submit the documents to the HCA. These documents will then be fully reviewed by the IDA team at the HCA prior to the start of the on site work. This may prompt some further questions, and some additional document requests.



Stage two

On-site work



At this stage the HCA team will want to meet and interview key members of the executive team and the board. Exactly who they choose to interview will vary by association but it is very likely to include meetings with the chief executive, the finance director, and the chair of the board. These may take the form of one on one or group interviews, and will dig deeper into any areas of risk the HCA was already aware of, as well into any areas identified through the document review.

The HCA team will definitely engage with the housing association's board. It is likely that the team will want to observe a board meeting and interview the chair of the board. They may also choose to attend a meeting of the Audit Committee and to interview other members of the board or the board of any subsidiaries, particularly if they cannot attend a full board meeting due to the timing of the assessment. You can expect that interviews with the board will take place without members of the executive team being present.

This stage allows the HCA team to go beyond considering strategy and policy documents, and to really assess the quality of decision making that takes place. They will want to make sure that the board has a good understanding of the association's strategy and the associated risks, and that they have fully understood and thoroughly debated all of the decisions they have made.

Stage three

Outcome and feedback



By this point the HCA team should be able to reach a conclusion and they will compile an internal report demonstrating their recommended regulatory judgments. They will present their recommendations to an internal panel at the HCA, and will need to justify this with evidence gained from the IDA. The panel will either agree with the recommendations, or if they are not convinced then the team will undertake any additional work needed to ensure they can make an informed and accurate judgment.

Housing associations will usually be advised of the outcome of their IDA once the HCA's internal quality assurance processes are complete. There will be a closing meeting that will include key individuals from the housing association and the HCA team. In this meeting the HCA will inform the association if there have been any changes to their regulatory judgment, and will also provide verbal feedback. This is likely to include constructive feedback identifying areas where the association can make further improvements, as well as highlighting positive points.

A new narrative regulatory judgement will only be published when there is a change to an association's regulatory grades, otherwise the straplines will just be refreshed.



What areas will the IDA focus on?

IDAs assess housing associations' compliance with the economic standards, with a particular focus on the association's viability (their ability to meet financial obligations) and their governance. Every IDA will also consider the association's value for money. Whilst each IDA is a bespoke process, they are all framed around a consistent model, with five key components:

- 1. Strategy**
- 2. Structure**
- 3. Financial resilience**
- 4. Risk profile and mitigation**
- 5. Governance.**



More detail about each of these components and the assessment focus in relation to each can be found in the HCA's [Regulating the Standards](#). Each IDA will start by looking at all of these issues at a high level, and during the assessment process the HCA team will focus in on the key issues that impact upon that particular association's compliance with the standards.

The HCA regards good governance as fundamental, so associations should expect this to be a central focus of all IDAs. The board is the governing body of the organisation and is responsible for its performance, therefore the HCA will need to satisfy themselves that the board is both capable of discharging this function and that they are actually doing so. The team will want to satisfy themselves that the board have oversight of all key decisions and risks, that they fully consider and understand these, and that they are provided with appropriate information that allows them to do this.

Risk management is also likely to be a central focus of all IDAs. The team will be assessing how this works in practice, and will be interested in the quality of debate that takes place at board level and at relevant committees about mitigating and managing identified risks. They will also look at the effectiveness of the organisation's stress testing.

The HCA will also seek assurance about housing associations' financial strength, their vulnerability to covenant breaches, their liquidity, and the risks to their social housing assets from non-social housing activity.

Preparing for an IDA

What can I do now?

Make a plan

- Put a project plan in place now that clearly outlines how you will manage the IDA process. This should identify the key individuals who will be involved, what roles each person will have, and specify who will lead the project.
- Think about the key staff members who will need to be involved and make sure you include people with all of the relevant skills, including someone with experience of using NROSH+ to ensure the document upload goes smoothly.

Organise key documents

- Get your key documents together now and ensure they are reviewed regularly.
- The document gathering stage is likely to be the most resource intensive part of the IDA process, therefore being organised now will save time when you have an assessment. It will also ensure that you are satisfied that all your essential documents are up to date and in line with each other.

Be proactive

- The board and the process by which they reach decisions will be a central focus of the assessment, therefore it is essential that boards demonstrate strong and effective governance.
- Review your board processes now to ensure they are robust and are able to demonstrate this. Don't wait for the IDA to highlight any potential issues.

Be aware of your key risk areas

- The IDA is likely to focus in on the key areas of risk for your association, so think about what these are and make sure you have clearly set out your plan for mitigating them.

Be aware of your key risk areas (continued)

- As part of this process, make sure you consider the risks to your social housing assets from any non-social housing activity.
- Think about how your risk management strategies work in practice. Having written strategies is important, but it is not sufficient, and the assessment team will want to see how these really work in practice.

Evidence decision-making

- Make sure that you are evidencing how decisions are made and how these decisions are debated.
- It is a good idea to think about what your board papers and the minutes of your board meetings would look like to a third party; would they demonstrate the depth of the debate that took place to consider the issue or would they only record the outcome that was reached?

Focus on stress testing

- Make sure that your stress testing includes combinations of risks across a range of scenarios, and considers both external economic factors that impact on the business as well as internal business risks.
- Ensure that your stress testing goes into sufficient depth in considering potential risks, and that you thoroughly explore the actions you will take to avoid or recover from the identified risks.
- Do you know what it would take to break your business plan? Our guide, [Asset and Liability Registers and Stress Testing: Safeguarding Your Business](#), provides more detail about the key issues to consider when stress testing and recovery planning for your business.

Preparing for an IDA

What can I do when the HCA decides to carry out an IDA?

Don't underestimate the time requirement

- Even if you are well prepared, the IDA will be time consuming. To make sure the right people are available it can be a good idea to clear the diaries of relevant staff members to ensure they can find and review documents at short notice and respond to any queries quickly.

Designate a point of contact

- Nominate one person in your project team to be the designated point of contact with the HCA team to ensure effective communication.

Maintain good channels of communication

- If you're not sure about any of the information that has been requested ask for clarification, sometimes the HCA's terminology will differ from your internal terminology.
- You should also be able to go back to the team to provide context or explanation alongside the requested documents where you feel this is needed.

Brief your board and relevant employees

- Make sure any board members and employees who may be interviewed as part of the IDA are made aware of all of the documents that have been shared with the HCA and have the opportunity to re-read these if they choose to.
- It is also important to ensure that they are aware of major risks, the strategic direction of the organisation, and any big decisions that have been made recently.
- The IDA isn't intended to throw up any surprises so preparation should mainly be focused on providing a reminder of the key issues, and providing a confidence boost for those who are apprehensive about the interview process.

Provide an overview of your organisation

- Consider providing the HCA team with a brief overview of your organisation, either as part of the documents request, or at the start of the on site work. This will give the HCA team useful context and may answer some of their initial questions.

Be open, transparent and honest

- Show the HCA that you can identify any areas where you have issues and what steps you're taking to improve these.
- See the IDA as an opportunity to build an honest relationship with the regulator.



What impact will the IDA have for your association?

The primary outcome of the assessment will be the regulatory judgment that states your governance and viability grading. Maintaining the confidence of the regulator and demonstrating that you meet the regulatory standards is business critical and having an IDA is a valuable opportunity to show this.

In addition to this central outcome, the assessment can also be a useful learning experience. It can provide assurance about the way you're running your business and the areas where you're getting it right, as well as

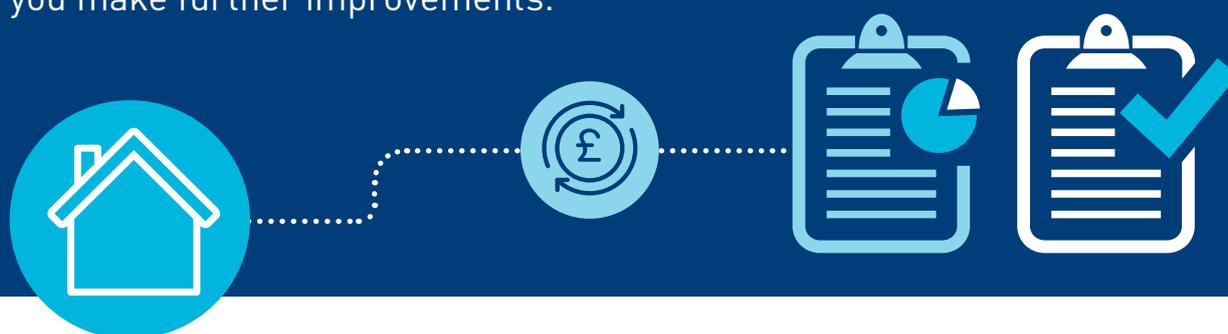
constructive feedback about the areas where further improvements could be made.

Many of the pilots pointed to areas where they had acted on this feedback, for example by developing their approach to stress testing or improving their oversight of a particular part of the business. Several associations also emphasised the value of the IDA in prompting them to take an in depth look at their business and to review all of their key policies and processes in relation to each other to identify any gaps or inconsistencies.

All of the organisations we spoke to who had been through a pilot IDA emphasised that this assessment is something every association should be capable of managing effectively.

The IDA is intended to give the HCA assurance that the association's business is being governed effectively and that they are able to meet their financial obligations. The HCA should get the same sources of assurance through the IDA that the board gets on a regular basis. The IDA is an opportunity to demonstrate this to the regulator.

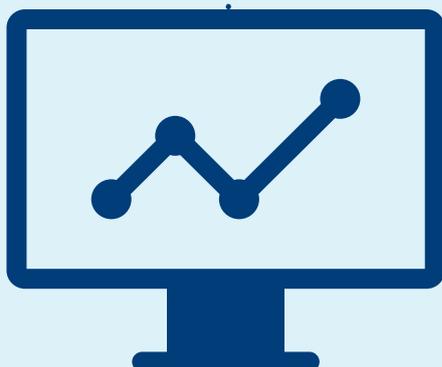
If managed successfully the IDA will provide you with useful assurance from the regulator about the way you run your business, a closer working relationship with the HCA, and some useful constructive feedback to help you make further improvements.



Key documents list

This list has been compiled based on the experience of the housing associations that took part in the pilot IDAs. It is intended to give a guide as to the types of documents the HCA may ask for as part of the IDA, and it is not intended to be an exhaustive list. As has been highlighted throughout this guidance, IDAs are a bespoke process and they will be individually tailored to each association.

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- strategic plan
 - business plan
 - financial plan, including current year budget
 - management accounts, including narrative and cash flows
 - latest audited accounts for all group entities and joint ventures
 - audit management letter
 - group structure chart, including all registered and non-registered entities
 - intra group lending agreements and service agreements
 - governance structure
 - development strategy
 - treasury strategy
 - investment policy
 - asset and liabilities register
 - risk assessment, including risk register and risk maps
 - reports on stress testing performed, scenarios, rationale and outcome
 - most recent set of board papers
 - evidence of board succession planning
 - board self-assessment of performance and skills matrix
 - legal advice received relating to the establishment of subsidiaries and any non-social housing activity.



The National Housing Federation is the voice of affordable housing in England. We believe that everyone should have the home they need at a price they can afford.

That's why we represent the work of housing associations and campaign for better housing. Our members provide two and a half million homes for more than five million people. And each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

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