# **Hexagon Housing Association Ltd**

# **Board of Management**

**26th July 2016**

###### Agenda Item 6

**Self-Assessment of compliance with Governance & Financial Standards**

**Report by the Chief Executive**

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| ***1.0*** | ***Introduction*** |
| 1.1 | The Homes & Communities Agency (HCA) updated the Governance & Viability Standard effective from 1st April 2015.  I reported on this in some considerable detail to the full Board on 31st March 2015. The new Standards introduced a requirement to assess compliance with the Governance & Viability Standard at least once a year.  Furthermore, for the first time it required Registered Provider boards to certify in their accounts their compliance with the Governance & Viability Standard.  The Audit & Risk Committee considered the drat format and layout for the Assessment of Compliance with the Governance and Viability Standards at its February meeting. The Board later approved the proposed format and layout at its March 2016 meeting.  A further update went to the May Audit & Risk Committee and this is now the final version of the completed Self-Assessment. |
| ***2.0*** | ***Recommendations*** |
| 2.1 | That the Board comment on and approve the Self-Assessment of Compliance with the Governance & Viability Standard as outlined in **Appendix A**.  Furthermore, that the Board approves the Statement contained within the Financial Statements and extracted under **Appendix B** which confirms compliance with the regulatory Governance and Viability Standards. |
| ***3.0*** | ***Summary of the main changes*** |
|  | To remind Members of some of the main changes which were introduced from 1st April 2015 in the Governance & Viability Standard, I thought the following might be useful:   * An explicit requirement to protect social housing assets; * A new requirement to prepare and maintain a clear and thorough record of assets and liabilities; * A new requirement to subject the Business Plan to robust and multi-variant stress testing and to stress test these Business Plans to destruction; * A strengthening of the existing requirements to comply with the law and to pro-actively inform the HCA of actual or potential non-compliance; * Introduction of a Code of Practice to ‘amplify’ the revised Governance and Viability Standard; * Revisions to the Rents Standard to switch the formula to CPI+1%. The previous £2 allowance for rent convergence was cancelled.   Otherwise, many of the key features of the previous Governance & Viability Standards were mostly preserved.  The Standards are outlined in full in Column 1 of Appendix A. |
| ***4.0*** | ***Code of Practice*** |
|  | When the HCA issued the new Governance & Viability Standards, they also issued something called a ‘Governance & Financial Viability Code of Practice’. The Code of Practice was designed to “amplify the requirements in the Governance & Viability Standard”.  The HCA suggests that where necessary, Registered Providers should have regard for the Code when assessing their compliance against the Standard. They do make it clear, however, that it is the Standard rather than the Code that the regulator can enforce against.  The Code is outlined in Column 2 of Appendix A. |
| ***5.0*** | ***General Themes in the Regulatory Framework*** |
|  | The main thrust of the Regulatory Framework changes, surrounded risk and changes in the operating environment for housing associations.  The reduction in grant rates since 2010, the increasing reliance on funding to bridge the gap, and the increasing diversification of many providers pursuing commercial activities to close the gap created by the loss of the grant, means that in general, the housing association sector is being subjected to increasing risk.  It is in that context that the new regulatory regime puts a much higher priority on providing **assurance** to the regulator that HA businesses continue to be well run as the sector changes given the new operating environment. |
| ***6.0*** | ***Actions since March 2015*** |
|  | Following my Board report of March 2015, the Board received a further report on the Business Plan at the May 2015 meeting.  The Board also agreed a recommendation that the Audit & Risk Committee keep a close watch on the development of the new Assets & Liabilities Register to ensure that we met the Regulator’s requirements as well as Hexagon’s needs. This too was actioned and this is covered in the report. In summary, an internal audit was carried out on the work on the Assets & Liabilities Register in November 2015 which provided ‘substantial assurance’.  In March 2015, I also confirmed to the Board that we were not aware of any areas of actual or potential non-compliance with any Standards in the new regulatory framework, but that we would keep this under constant review as required by the new Framework.  I had recommended to the March 2015 Board that they receive a further report in July 2016 which outlines our compliance with the Regulatory Framework for inclusion in the Financial Statements for the year ending 31st March 2016 and the attached **Appendix A** deals with that in some consideration detail.  This follows earlier drafts which went to the February Audit & Risk Committee, the March Board, and the May Audit & Risk Committee.  I should emphasise that this is the first year of this particular regulatory requirement, but I think we have been fairly comprehensive in addressing both the regulatory standard and the amplified code which accompanies it against which we have carried out the self-assessment. |
| ***7.0*** | ***Sources of Assurance*** |
|  | I think it is important to remind the Committee that the provision of assurance is only partly a function of internal and our external audit function. Assurance is also about the provision of accurate and current information by management to the Board about the efficiency and effectiveness of our policies and operations and the status of our compliance with statutory and regulatory obligations. |
| ***8.0*** | ***Format for the Assurance report*** |
|  | I attach under **Appendix A**, a proposed format for reporting on compliance to the July Audit & Risk Committee and Board.  Column 1 outlines the actual Governance and Viability Standard, column 2 provides the Code of Practice amplification which accompanies the actual Code. The Code is useful in that it gives a steer on how we might comply with the Standard.  Column 3 shows whether we are fully, partially or non-compliant (F, P or N). Column 4 provides an explanation of any possible gaps in compliance.  Column 5 includes sources of the evidence of compliance. Some of these are from the Executive, others are from auditors (either internal or external). I have also referenced some legal advice where appropriate, particularly in relation to the arrangements between Hexagon and Horniman in respect of our Investment Policy on on-lending. I have also made a couple of references to advice from our treasury advisors, where appropriate.  The sixth, and final, column gives a rating for the assurance as either ‘high’, ‘medium’, ‘limited’, or ‘none’.  In putting this format together, I should emphasise that there are no particular requirements laid out by the regulator about exactly how the assurance is provided and it is up to Boards to decide.  I should also point out that in the first year, getting hold of best practice has not been particularly easy, although I have utilised some helpful information which was provided by Liz Kulczycki, the partner at BDO who oversees our external audit function as provided to a conference in early November attended by Phil Newsam, our Finance Director.  The approach has also been informed by several discussions I have had with my L8 Chief Executive colleagues, particularly in respect of how other HAs will address the requirements to provide assurance about complying with “relevant laws”. |
| ***9.0*** | ***New Areas in the Standard*** |
|  | One of the new requirements of the Governance Standard in 1.1 is that Registered Providers must “adhere to all relevant laws”. The Code suggests that to meet the required outcome on adherence all relevant laws, Boards should take “reasonable measures to assurance themselves of their compliance”.  I think the reference to “reasonable measures” is quite important because there is a very large raft of legislation that is relevant to our work which we must comply with.  At the June Board meeting, the Board agreed a process for confirming our compliance with all relevant law and that was actioned with all our Board Members, Managers and Directors. The result is summarised in Section 1.1 of the Governance Standard. The result is also contained within the compliance statement we have made within the Financial Statements and I have highlighted the issue of compliance with relevant law, given that this is a new area in the Standard on which the HCA requires explicit assurance. |
| ***10.0*** | ***Board statement on Compliance with the Governance and Viability Standard*** |
|  | I attach at **Appendix B**, the Board statement on Compliance with the Governance and Viability Standard which has been included in the Financial Statements.  I would **recommend** that the Board approve the statement.  The statement confirms that the Board have undertaken a Self-Assessment of Compliance with Regulatory Standards and has concluded that Hexagon continues to meet both Standards.  The review has identified one area of partial compliance with the NHF Code of Governance (and therefore with the Governance Standard) as well as a few relatively minor/technical breaches of relevant law, but concludes that the Board has determined that none of these issues is incompatible with meeting the Regulatory Standards. |