Sector Risk Overview - Challenges, Risks and Regulatory Expectations

February 2020
The purpose of this paper is to provide Housing Associations with an update on key risks and challenges faced by the sector as a whole and to set out expectations as to how Boards should respond and manage the risks.

The paper examines, amongst other risks, the challenges resulting from a higher profile on tenant safety in the aftermath of the Grenfell Tower fire, the negotiations on the UK’s future relationship with the EU and the need to have robust business planning and assurance frameworks in place to ensure Boards make robust, well informed decisions. As is always the case, strong governance is critical in ensuring a Housing Associations is able to identify and correctly respond to the risks they and the sector face.

We have set out what we currently consider to be the main risks and challenges facing the sector in Wales and how we expect Board’s to respond. RSLs and their Board should be mindful of these challenges and risks, ensuring they implement appropriate mitigation – ensuring they are doing “the right stuff” (The Right Stuff - improving-housing-association-governance-in-wales-2018).

Individual RSLs will have additional specific risks not included in this sector overview. Boards must ensure both those and the sector risks are appropriately assessed and managed. They should note the Regulator may require assurance on specific risks in addition to any assurance required as part of planned regulatory oversight.

The assessment of the possible impact of the risks and challenges are written from the perspective of potential impact on compliance with the 10 Performance Standards used to underpin Regulatory Judgements.

The role of regulation

The activities of RSLs have a significant impact on the whole of the Welsh economy as well as on the people who use their services directly. This is evidenced by some key statistics taken from the 2018 Financial Statements of Welsh Housing Associations

- RSLs, provide more than 162,000 homes in Wales
- Turnover £953m
- Total debt level £2.8bn
- contributing at least 12,500 affordable homes of the 20,000 target in this assembly term
- £148m grant funding
- Directly and indirectly supporting around 23,000 jobs
- Total impact on Welsh economy - £2bn
Regulation is concerned with protecting and benefiting those tenants and communities as well as safeguarding public investment. The Regulatory Framework for Housing Associations Registered in Wales (2017) explains the Welsh Ministers regulate each Housing Association to ensure each is:

- Well governed
- Delivering high quality services
- Financially viable

This is achieved through a regulated self-assurance regulatory model where RSLs determine the best way to self-assure they are meeting their legal and service quality expectations. In reaching regulatory judgements, the Regulator’s job is to assess that assurance and decide if it is sufficient to address any regulatory concerns.

Regulated self-assurance is discussed in “The Right Stuff”. It includes:

- Demonstrating good governance,
- Being clear about what you are doing and why,
- Identifying risks,
- Considering options to mitigate those risks,
- Being clear why the selected option is the right one.

Co-regulation underpins the regulatory model in Wales. Co –regulation means every RSL Board and executive team is responsible for drawing to our attention, as soon as is practicable, any new or emerging risk or issue which has the potential to materially impact the risk profile of the organisation.

The regulatory model changed significantly with the introduction of the current framework in 2017 and it continues to evolve. In 2020, as well as our project to further develop the way we assess governance, we will also be carrying out a review of the framework as well as considering the possibility of closer alignment of accountability and oversight of tenant services in both the RSL and local authority sectors.

Boards will need to be in a position where they can respond to changes in the regulatory environment driven by the review programme and new initiatives.
Challenges, Risks and Regulatory Expectations

### Leaving the EU - Challenges and Risks

Risks associated with leaving the European Union should have been on everyone’s agenda for some time. As negotiations on the UK’s future relationship with the EU within the framework of the Political Declaration agreed last year begin, uncertainty continues, including if negotiations falter, the risk of ‘No Deal’ from the beginning of 2021.

The uncertainty further underlines the importance of modelling responses to possible vulnerabilities in both delivery of services and more strategic issues. Examples of possible areas for consideration include access to funding, interest rates, labour shortages, disruption in the supply chain, perhaps fuel and medicine shortages, impact on property values as well as any impact of the EU settlement scheme.

The Welsh Government has published a response to the Political Declaration: [the-future-uk-eu-relationship](#), the White Paper [securing Wales’s future](#), which sets out the main issues identified as vital for Wales as the UK moves to leave the EU. Community Housing Cymru’s February 2020 Brexit update is here: [Update Feb2020](#). In anticipation of concerns about the potential impacts of a “no deal” Brexit in Wales, the Welsh Government has created a Preparing Wales website: [Preparing Wales](#).

The website has information for people living in Wales, covering business and the economy, health and social services, education and skills, environment and agriculture, community cohesion, local services and the third sector. As well as providing advice from the Welsh Government, it directs people and organisations to relevant advice on how to prepare from outside bodies, including guidance from the UK Government where appropriate.

The Bevan Foundation has published: [After Brexit: Housing the nation](#).

### Boards are expected to:

- Identify and understand the risks and challenges associated with the emerging relationship with the EU from the beginning of 2021. Potential impacts should be understood and modelled for all of the potential scenarios including no deal.
- Alert their Regulation Manager as soon as possible, if, as a result of scenario modelling they have any immediate concerns.
Affordable Housing Supply Review - Challenges and Risks

The purpose of the independent review, commissioned in April 2018, was to examine current arrangements supporting the development of affordable housing and to make recommendations for changes, designed to increase supply and improve delivery from the resources available.

The terms of reference for the review, included, but weren’t limited to:

- Examine the scope for increasing matching sources of finance and the implications of that for grant intervention rates;
- Evaluate the impact of moving to deliver zero carbon homes by 2020 including the role of off-site manufacture and modern methods of construction;
- Provide advice on whether there should be changes to the standards governing the design and quality of affordable housing;
- Make recommendations on how a sustainable rent policy can help determine long term affordability for tenants and the viability of existing and new housing developments;
- Advise on how the development capacity in Large Stock Voluntary Transfer (LSVT) housing associations and stock-holding local authorities can be maximised especially after 2020 when all existing stock meets the Wales Housing Quality Standard.

On 1 May 2019 the Independent Review of Affordable Housing Supply Final Report was launched. Subsequently on 09 July 2019 the Minister for Housing & Local Government responded to the report and accepted or accepted in principle every recommendation, with one exception in respect of the future of Help to Buy. Welsh Government are not in a position to respond to this recommendation until the consequential funding to be received from the UK Government is known.

The review’s recommendations are challenging, however they also offer an opportunity to reflect on the best aspects of current policies and practices and those areas where changes can and should be made to ensure we get the best value for money from our investment in housing, and support many more people in Wales to access the affordable housing they need.

Options for implementing the recommendations are well underway, and as such a number of changes should therefore be expected, with some already having been implemented, such as a new rent policy settlement.

The new five year rent policy for social housing tenants in Wales, which will help keep rents affordable while allowing social landlords to build more affordable homes across the country, was announced in December 2019. Under the five year rent policy, which will to come into effect from April 2020, aggregate social rents can be uplifted by a maximum of the Consumer Price Index +1% for five years as long as CPI stays within a prescribed range.

In recognition of the greater stability and certainty provided by the revised policy on rents, a number of wider requirements have been agreed with representative bodies, which can be summarised as:
• Minimise evictions and do not evict into homelessness;
• Undertake standardised tenant satisfaction surveys, with first survey results being available for publication on a central website by April 2021;
• Aspire to delivering DQR 2020 space standards across tenure\(^1\) on sites which attract Welsh Government funding, on a phased basis from 2021;
• Aspire to delivering all new build housing, regardless of tenure, to EPC A on sites which attract any Welsh Government funding from April 2021.

Some of the other recommendations which will impact on the RSL sector include proposals for:

• Revised quality standards for new build grant funded and S106 homes, which concentrate and minimum space standards;
• New affordable homes to be near zero carbon / EPC ‘A’ from 2021;
• A new grant funding model to replace the current flat rate Social Housing Grant model, which tests the principles of fairness, quality, and grant value for money transparency, which is also open to Local Authorities to access;
• Continued support for off-site manufacturing and modern methods of construction, including the introduction of a strategy to help deliver increased scale and pace of affordable housing at near zero carbon levels using Off Site Manufacturing and Modern Methods of Construction;
• An accelerated programme of decarbonisation of existing homes in return for an ongoing commitment to Dowry and Major Repairs Allowance, post achievement of the Welsh Housing Quality Standards in 2020.

Boards are expected to:

• Be aware of the recommendations accepted or accepted in principle from the review’s work,
• Be mindful of these recommendations when planning for the future,
• Keep up to date of announcements as they happen regarding the implementation of the recommendations to ensure compliance as policies and practices change as well as identify any associated risks.

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\(^1\) Please note that the full DQR 2020 standard includes other requirements in addition to space standards and these will need to be met in full for homes financed by schemes such as Social Housing Grant.
Performance Standard 1

Effective Board and executive management with a clear and ambitious vision for the Registered Social Landlord

- Sets a clear vision and values for the organisation which deliver and progress the core purpose of the business.
- Governance arrangements establish and maintain clear roles, responsibilities and accountabilities for the board, chair and chief executive and ensure appropriate probity arrangements are in place.
- Complies with governing documents including adopting, and complying with, an appropriate code of governance.
- Adheres to all relevant law.

Challenges and Risks

Good governance is at the heart of a strong business. There is substantial evidence organisations with poor governance are most likely to mismanage risks. The Board and Executive team must ensure the highest quality governance and leadership in every aspect of the business, that their governance arrangements support the values, culture and behaviours they set themselves and which reflect the values expected of Housing Associations in Wales.

We have seen recently a number of examples where poor governance practice has resulted in what appear to be unrelated symptoms but has resulted in significant regulatory concerns. Organisations need to be mindful that poor governance in one area can often indicate shortfalls in other areas or can be symptomatic of a larger issue.

Boards are expected to:

- Ensure their governance including culture, behaviours, and leadership of the Board and senior management team is of the highest quality and has appropriate governance structures and processes in place to support the and achieve those standards.
- Have formal, comprehensive and robust board assurance arrangements in place.
- Have effective forward and strategic planning in place, seeing the ‘bigger picture’ and to be aware of the risks and implications of the fast changing external environment.
- Ensure activities and services reflect the diversity of communities in which associations operate, are free from discrimination and promote equality of opportunity. Housing associations are expected to implement the equality and diversity requirements set out in their Code of Governance and the Equality Act 2010. An analysis of the 2019 Board Diversity returns will be published shortly.
- Consider “The Right Stuff” Governance report.
Performance Standard 2

Effective and appropriate tenant involvement and high quality and improving services.

- Demonstrates how tenants are effectively involved in strategic decision making and shaping services in ways appropriate for tenants and the organisation.
- Meets all applicable statutory requirements providing for the health and safety of the occupants in the home.

Challenges and Risks

Boards need to understand the outcomes they are seeking from listening to tenants and consider whether their current arrangements are providing the right opportunities for tenants to be involved in decision making. In 2019, the Regulatory Board for Wales published a review into tenant involvement Hearing-the-Tenants-Voice 2019 which sets out a high level framework to help understand and undertake meaningful tenant involvement. The review references the Grenfell tragedy and the subsequent Hackitt review (independent-review-of-building-regulations-and-fire-safety-hackitt-review) in terms of the dangers of not listening to tenants and the need for greater transparency of information; and consultation and involvement in decision making processes.

The safety of tenants is a key risk for all RSLs. The sector overview report - Landlord Health and Safety, October 2018, highlights a number of issues including the risks associated with poor data integrity and the lack of formal involvement of tenants in health and safety. It is difficult to see how compliance with PS2 can be demonstrated without meaningful tenant involvement in Health and Safety issues.

From 2018, comparative tenant satisfaction data has been available, hosted on the Housing Association comparison tool page. It provides data to stakeholders to increase scrutiny, accountability and transparency. There is ongoing work considering the range and types of comparable datasets to be published in future.

Boards are expected to:

- Consider and respond to the recommendations of “Hearing the Tenants Voice”.
- Ensure arrangements for the management of landlord health and safety are of the highest standards and the recommendations of the sector overview report have been considered and any improvements required implemented.
Performance Standard 3

Comprehensive assessment of the business impacts of current and emerging risks, including new business and development opportunities, with robust risk management arrangements.

- Safeguards taxpayer’s interests and the reputation of the sector and protects social housing assets.
- Assessment of capacity to take on new business and development opportunities is robust.
- Carries out detailed and robust stress testing of financial plans against a range of scenarios, identifying appropriate mitigation strategies.
- Before taking on any new liabilities, ensures obligations are fully understood and demonstrates consideration of how the likely impact on current and future business and regulatory compliance will be managed.

Challenges and Risks

One of the main aims of the sector is to increase the new supply of affordable housing via development. Whilst grant will contribute to the cost of financing new homes, a major element will come from debt and there is an absolute expectation housing associations will maximise delivery where capacity exists. Key risks to development programmes include:

- Increases in labour or supply costs, skills shortages and material prices increases as a result of leaving the EU.
- The cost of acquiring land which can often be inflated when there is competition from a number of developers, with uncontrolled landbanking having the potential to lead to losses and cash shortages.
- The capacity of the business to develop, which can be quickly expended when developing with little or no grant.
- How risk appetite is reflected in any requirement to set an internal target to provide headroom on covenant compliance.
- Diversification by extending business activities beyond providing social housing.

Scenario testing is now a standard feature of business planning. Generally Boards have taken ownership of scenario testing but further improvements in the identification and modelling of mitigation strategies as part of the testing is required. In particular considering whether these strategies are realistic and achievable within the necessary timescales.

Assessing the impact on tenants and services of implementing the mitigations identified is an essential part of scenario testing and, if the impacts are not viable, Boards must consider whether any changes are necessary to increase the current level of resilience.
Boards are expected to:

- Undertake extensive scenario testing and rehearse recovery planning ensuring it is both comprehensive and achievable within the necessary timescales.
- Have in place an appropriate risk management framework, determine their risk appetite across the business and ensure risk is managed effectively.
- Have strategies in place to monitor and manage cash flows and be mindful that current Welsh Government funding streams are not guaranteed.
- Provide assurance diversification into non-core business is being effectively managed; guaranteeing tenants are protected, social housing assets are not put at risk, that the public value within them is protected and that the necessary skills and expertise is in place around the Board table.
- Understand the potential benefits and risks of undertaking a new activity being clear on how entering into new markets or activities fits into the overall strategy, how it helps to meet core objectives and be able to determine whether the organisational structure being recommended to deliver the new venture is appropriate.
- Be clear that any mitigating actions, break clauses or exit strategies in place to manage the risks they identify are actionable in practice and to be aware of their current financial strength and capacity to withstand a project failing.
- Demonstrate how diversification into non-social housing activities such as market sales benefit core activities. In particular, where income from non-core business is approaching 20%, Boards may be required to provide detailed assurance on the benefits to the core business of developing and managing social housing.
Performance Standard 4

Clearly evidenced self-evaluation and statement of compliance.

- Compliance with Circular 02/15.

Challenges and Risks

Effective self-evaluation is key to assessing progress on delivering the RSLs business plan and vision. The requirements to publish an accessible self-evaluation are clearly set out. The Annual Board statement of Compliance is one of the most important documents the Board signs as failure to meet performance standards or failure to evidence a credible plan is in place to improve compliance can lead to an adverse regulatory judgement, regulatory action and associated reputational damage.

Boards are expected to:

- Provide an annual Board Statement of Compliance which is honest and accurate with supported evidence that is available on request.
- Undertake a self-evaluation process, which itself requires effective performance monitoring (see PS.5), to meet the requirements and expectations set out in the Welsh Government Circular RSL 02/15.
## Performance Standard 5

A track record of achieving positive outcomes, responding appropriately to new challenges and performance issues.

### Guidance

- Demonstrates how the board assures itself of current performance, including tenant satisfaction, and drives continuous improvement.

- Demonstrates how lettings make the best use of available housing, compatible with the core purpose of the Registered Social Landlord.

## Challenges and/or Risks

Failing to monitor and understand performance in regard to tenant satisfaction leads to a Board and Executive making decisions without understanding what is important to tenants. Understanding performance provides the basis for driving improvement while issues resulting from poor performance can, if left unresolved, become more significant over time and lead to further problems.

Not keeping up to date with good practice and anticipating future trends can lead to stagnation and a failure to meet emerging needs.

Lettings/Allocations need to contribute to meeting local housing need. This means ensuring close collaboration with local authority partners, housing people with diverse needs including homeless and people threatened with homelessness. Helping people to sustain tenancies is challenging but failing to use stock effectively can contribute to further homelessness issues and adversely impact on communities.

## Boards are expected to:

- Understand performance across all aspects of the business, whether performance is improving or deteriorating, performance in relation to peers, is performance meeting targets and why those targets are appropriate as well as having a credible plan to improve where necessary.

- Understand and be able to evidence how allocations contributes to local housing needs and strategies, working closely with local authorities and other stakeholders and make a positive contribution to tackling homelessness and sustaining tenancies and communities.

- Evidence effective service performance monitoring ensures high quality and improving services.

- Validate and understand their data, have robust mechanisms to address failing performance and use the data to improve services.
### Performance Standard 6

Delivering value for money in all areas of the business

- Demonstrates a strategic approach to, and delivery of, value for money across the business.

### Challenges and Risks

A Value for Money report issued by the Regulator in March 2017 showed that further improvements are required in developing and implementing comprehensive value for money strategies setting out how the housing association will improve value for money including social value and community benefits.

The impact of welfare reform and pressure on tenant’s incomes over the last few years has placed an increasing importance on the sector to provide accommodation which is affordable for tenants.

Many tenants, typically those living in flats, are subject to a significant level of service charges in addition to their rent and RSLs face the challenge of ensuring that these additional charges do not place tenants in hardship.

Whilst the new Welsh Government rent policy allows for above inflation rent increases for the next five years, RSLs need to be mindful of the cumulative impact applying this permitted increase in full will have on affordability.

### Boards are expected to:

- Make decisions based on accurate and relevant data and have plans in place to improve value for money in all areas of their business.

- Have a robust understanding of the cost of running the business and a clear strategy for managing and controlling future costs by making efficiencies, and/or reducing expenditure.

- Ensure that cost control and savings are not delivered through a programme of disinvestment in the asset base and be able to provide assurance the assumptions and plans are not based on significant and material reductions in maintenance or capital investment, affecting asset valuations or the quality of life for tenants.

- Place affordability at the heart of the decision making process with regard to rent setting and other charges for services and be able to demonstrate that charges are not placing tenants in hardship.
### Performance Standard 7

Compliance with regulatory requirements, statutory and other guidance

- Communicates in a timely manner with the regulator on material issues that relate to non-compliance.
- Adheres to all regulatory requirements.

### Challenges and Risks

Boards are responsible for ensuring compliance with requirements of the Data Protection Act 2018 as the Information Commissioner may, in certain circumstances, serve a Monetary Penalty Notice on a data controller (housing association). The Information Commissioner has previously warned social housing organisations must keep their tenants’ data secure.

Non-compliance with regulatory guidance and requirements including, for example, repeated failure to provide returns on time, not communicating notifiable events and not meeting the requirements of circulars and guidance may be taken into account when regulatory judgements are published.

**Boards are expected to:**

- Ensure regulatory requirements are understood and have assurance systems to demonstrate they are being met in full.
Performance Standard 8

A financial plan which delivers and supports the business plan and effective monitoring of financial performance.

- Ensures that the organisation is financially sound.
- Effective systems and controls are in place to monitor and accurately report delivery of the Registered Social Landlords plans.
- Monitors, reports on and complies with all covenants.

Challenges and Risks

Whilst there is a common set of risks that RSLs face, the impact of those risks are specific to each organisation. The Board need to ensure their business planning takes the following sector risks into consideration:

Welsh Government Rent Policy

The new rent policy announced in December 2019 allows for rental increases of up to CPI+1%, giving a large degree of certainty in the medium term. Continued index linking of rent increases is not guaranteed beyond 2025 and annually, the approved rent increase, based on CPI, is not known until late autumn. Boards need to understand the impact of potential changes to future Welsh Government rent policy on their financial plans and business activities and respond to the new requirement that rents are affordable for tenants.

Welfare reform

In general, housing associations have responded effectively to welfare reform to date. The maintenance of income collection rates has, however, come at a cost. These include increased staffing levels and collection charges to collect rents and maximise tenant income and to a degree rely upon discretionary housing payments for the most vulnerable tenants. The majority of housing associations in Wales have yet to see significant numbers of tenants moving to universal credit and will need to ensure that systems put in place to deal with the transition still operate when numbers rise significantly.

Supported housing and care

This is generally a low margin activity for housing associations in Wales further pressurised by the impact of the national living wage as well as possible implications on the labour market as the nature of the future relationship with the EU and migration policy becomes clearer.

Most associations access some Housing Support Grant and a number of specialist association’s reliance on the funding is much greater. Whilst the future funding of supported housing is more certain following the UK Government announcement in August 2018 that housing benefit for supported housing would not change they have also committed to review how support is funded. We do not expect the ability to fund supported housing through welfare to change significantly. If a new funding system for supported housing is introduced, Boards must ensure they understand the impli-
cations of the new funding model as it emerges and consider mitigation strategies which should include exit strategies in the event that services are not sustainable or viable.

Where associations have a significant level of income from Supported Housing, or indeed any other business stream, they should ensure that the performance of each stream is kept under regular review and that relevant guidance and grant conditions are complied with.

**Pension costs**
Increasing deficits in defined benefit pension schemes remain an area of risk for many associations although the precise issues will be unique to each. SHPS have recently announced further significant increases in contribution rates. Boards must keep pension schemes under review to determine whether their existing schemes are fit for purpose and, affordable. They should identify the risks of, and to, their pension provision, and develop effective mitigating strategies and should understand the longer term cost of remaining in the scheme and undertake some form of cost benefit analysis covering a range of options they could introduce to mitigate the impact of rising costs.

**Differential inflation rates**
The differential between cost and revenue inflation will vary over time and cannot be wholly predictable. Business plans need to be robust to a situation where cost inflationary pressures exceed the growth in rental income.

**Increases in Interest Rates**
Both short term interest rates and longer term bond yields remain at historically low levels. Whilst the market is not anticipating any significant rises in the cost of borrowing it remains a significant risk for Boards to rely on rates remaining at current levels in the medium term.

The Regulator will view failure to comply with funding covenants as ineffective governance in risk management and not meeting the performance standards. The position will continue to be monitored and individual discussions will be held with any association seen to be outside of the normal range of exposure to this risk.

**Boards are expected to:**

- Have a robust financial model in place which supports the business plan objectives. The plan needs be based on appropriate assumptions taking into account the key financial risks which may prevent its successful delivery. A range of scenarios and multiple scenarios need to run through the model to understand the impact of those key risks materialising. This enables a range of mitigating strategies to be prepared which could be adopted if required. It will also reveal where steps should be taken to reduce the impact of those risks, should they occur
- Undertake comprehensive stress testing and mitigation analysis - There is increased regulatory focus on stress testing and planning of mitigations by associations to ensure cash flow and covenant compliance can be sustained for a range of possible scenarios. The regulator will more intensively engage with those organisations where there is material exposure, particularly where our information and analysis suggests the potential impact on a housing associa-
tion is greater than anticipated in their own forecasts.

- Ensure that any strategy identified to mitigate against these scenarios occurring is realistic and can be implemented in time. They should also ensure that where mitigation strategies would be difficult to implement or result in drastic measure being required, that improvements to existing systems and processes are identified to reduce risk.
Performance Standard 9

Effective management of treasury operations ensuring sufficient liquidity at all times.

- Ensures sufficient funding is available to deliver the business plan
- Ensures financial forecasts are based on appropriate and reasonable assumptions

Challenges and Risks

With the ongoing uncertainty around the future relationship with the EU, there is a risk to RSLs that the capital markets could become disrupted for a period of time and new funding opportunities may be limited and take longer to put in place.

With the majority of banks no longer offering long term finance, there is an increasing reliance in the sector on bond financing. With a wide range of products available in the bond market the risk of choosing an inappropriate funding deal with onerous and inflexible conditions can have serious consequences for an RSL.

The sector has its highest proportion of fixed rate debt, at 75%, for the last 10 years. Of this, 90% is fixed for a period of at least 5 years. This indicates that the sector as a whole is not currently unduly exposed to increases in borrowing costs. However, this percentage varies within the sector and Boards must ensure that they have a level of exposure to interest rate rises that is appropriate for their business.

The active monitoring of financial covenants is an essential part of effective treasury management. Boards need to be assured that all covenants are correctly calculated, particularly as the sector transitions to the new financial reporting standards introduced in 2015. Although breaching a loan covenant may not in itself break a business plan, it may significantly weaken an organisation’s financial position, removing the control over its loan portfolio and impair its ability to negotiate with its funders. This could result in funders triggering a re-pricing, refusing to release available funding or a demand to repay the loan.

The use of unrealistic assumptions such as the achieving of efficiency savings without a realistic plan on how to achieve them can give a Board a false impression on the viability of an RSL.

A number of LSVTs are in a position whereby they will be looking to refinance over the next few years in order to meet their ambition to develop significant numbers of new properties. This brings about new challenges for the Board as they will need to understand the changes to be made on how they monitor treasury performance, including available funding and covenant performance.

Boards are expected to:

- Have a sound treasury management strategy in place in order to deal with the number of different risks associated with the management of funding.
strategy must ensure that clear parameters are set to manage liquidity, there is access to debt as required, there is sufficient security available to meet funding requirements, interest rate risk is managed appropriately and investment of surplus cash is not put at risk.

- Be assured treasury operations are being effectively managed, particularly regarding the availability of future funding.
- Ensure sufficient information and expertise is in place to be able to assess treasury risks and receive appropriate external advice when required. This is particularly relevant when evaluating the different financing options available when determining the structure of their debt.
Performance Standard 10

A clear understanding of liabilities and asset performance

- Maintains a thorough, accurate and up to date record of assets and liabilities including all liabilities which have recourse to social housing assets.
- Data on the financial and social performance of assets is accurate and used to inform investment decisions.
- Ensures data on the condition of their assets is up to date and is able to demonstrate consideration of the short and long term costs of maintenance, repair and renewal.
- Ensures that publicly funded homes meet the required standards of design and the Welsh Housing Quality Standard.

Challenges and Risks

A failure to understand and accurately record the condition of housing stock can lead to serious failures with impacts upon both tenants and the viability of an organisation.

Without a strategy for managing properties money can be spent inappropriately on the wrong properties, at the wrong time leading to poor value for money. Tenant’s safety and health can be put at risk and they may not be provided with a high quality home in which to live. When building new properties the challenge is to ensure that homes are fit for the future as well as meeting all current standards.

In the current climate it is a challenge to keep up to date with current legislation and guidance, for example, the implications of the Hackett review.

A failure to understand the future expenditure required to maintain existing properties can lead to financial pressures when faults have to be rectified or properties brought back up to standard and may affect the ability of an RSL to deliver other aspects of its business plan.

Not maintaining accurate up to date property records can result in avoidable delays to providing the necessary security to access loan funding and could lead to cash shortages.

If the cost of maintaining and improving properties is not accurately reflected in business plans this can lead to financial distress and a failure to deliver on the plan as a whole.

When employing contractors Boards need to understand what, counter party risk their organisation is exposed to. The failure of a major contractor has the potential to cause significant disruption to the services provided to tenants and may require significant expenditure to rectify the situation. Boards need to fully understand the potential circumstances in which they or the counter party has an option to vary or break a contract, and put in place mitigations to manage the risk in the event this happens.
Associations need to be mindful of the need to maintain WHQS and have a plan in place to minimise acceptable fails by December 2020. They must also be mindful of the current decarbonisation agenda and the impact it may have in its stock and business plan.

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<th>Boards are expected to:</th>
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<tr>
<td>• Ensure, and be able to evidence, that their stock is in good condition, complies with all relevant Health and Safety legislation and uses evidence where this is not the case to rectify the issue in an appropriate and timely manner.</td>
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<tr>
<td>• Have a clear understanding of liabilities and asset performance, and take appropriate action to the risks identified.</td>
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<td>• Have a comprehensive, accurate and up to date asset and liabilities register.</td>
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<td>• Understand their housing assets, security position and associated liabilities and importantly, use this information to inform decision making and risk management.</td>
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<td>• Be satisfied that all planning obligations, s106 conditions, title deeds, and other necessary paperwork has been put in place so that assets are available to provide security for additional funding in a timely manner as possible.</td>
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<td>• Have in place a plan to reduce the number of acceptable fails of the Welsh Government Housing Quality Standard, including where tenants choice has been taken into account. The installation of showers and other basic amenities should be prioritised. Since 2018, comparative WHQS data has been available to stakeholders for scrutiny.</td>
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