Board and Risk at NCH

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- How our board approaches risk
- How the board gains assurance
- How we evidence a robust approach to WG

Why is risk management important?

- Retain the confidence of (new) investors and stakeholders
- We are expanding our development programme, including into multi-tenure development
- Wider risk environment eg health and safety issues
- So risk is vital!

Key elements of the board approach to risk management

- A risk assurance framework overseen by Audit and Risk Committee (ARC) and reported to board
- Risk identification / controls / assurance
- Risk appetite and golden rules (key)
- Business planning and stress testing (e.g. the ‘fake insolvency’ paper)
- A development governance framework including financial hurdles for development schemes, and approval levels.
- Board Strategy Planning days.

Golden Rules

Internal Golden Rules	Aug-19	Sep-19
A maximum of 250 new houses to be developed in any one year	Met	Met
All new development to be self-funding (except regeneration)	Met	Met
All property to meet WHQS standard	Met	Met
Minimum of next 2.5 years of business plan activity funded by loan	Met	Met
If EBITDA interest cover lender limit is 110%, internal limit will be 130%.	> 500%	> 500%
5% buffer against lender debt per unit (e.g. lender limit £20k, internal limit is £19k)	< £6,000	< £6,000
Top regulatory grade	Standard	Standard
Maintain a credit rating equivalent to majority of housing associations (assessed by J. Hargreaves & Centrus)	A Rating	A Rating
No more than 10 disposals, excluding right to buys in any one year.	Nil	Nil
Land banking not to exceed £10m in value.	£9.24m	£9.24m
Commercial activity not to exceed 15% of annual turnover.	Met	Met

ARC Role

- Regular paper on risk covering:
    - The business environment
    - Crystallised risks
    - Changes in risk scores, new risks etc.
    - Key risks and assurances and full risks list
    - Do ARC agree with this picture
- Programme of risk ‘deep dives’
    - 2 per meeting
    - Definition, causes, consequences, controls, assurance

Deep Dives

Strategic Risk Review				BXX Appendix 1
Risk Name	Voids works expenditure greater than budget	Date of Review: 10 December 2019	Risk ID:	19

Risk Description: The expenditure on maintaining void dwellings higher than budget. The amount of works required is determined by the NCH specification (void standard) and the condition of the dwelling and garden when the dwelling becomes void.

Risk Assessment	
Probability	3
Impact	3
Total	6

What are the possible causes?	What are the consequences of the risks materialising?	Controls in place	Further controls/actions required
Greater number of voids than projected Voids require significantly greater work than planned: poor condition of voids Poor condition of gardens requiring greater investment to bring up to the relevant standards Difficult to let dwellings due to void condition requiring higher specification to attract potential tenants. Works specified greater than required: over-specified works. Failure to manage contractors effectively resulting in longer return times. DLO not cost or time effective Changes to legislation requiring higher investment – i.e. WHQS or Decarb New developments generating higher standard expectation in localised areas.	Budget breaches Other budgets being cut to increase available funding to voids results in a drop in or restricted service Not enough resource for dealing with demand, either internally for our DLO or externally via framework contractors. Properties left empty for longer attracting antisocial behaviour Reputational impact due to public perception of poor management Wider estate degradation Lower standards applied to deal with budget overspends Increase void rental loss Increased council tax spend	Independent (outside delivery team) void process monitoring and reporting. Established voids standard that provides the ability to flex for high cost/low demand units and £10k approval limit which triggers an option appraisal. Trained surveyors in standards and interpretation Budget management – through accurate and prompt reporting. Voids surveyors apply consistent standard. Material supply chain producing a standardised catalogue of materials to be utilised. Actively driving DLO efficiency via new scheduling systems, management information provision for operative management, culture change, multiskilling of operatives, in-house stores and management practises. Monitoring of industry and political environment and establishment of closer working relationships with industry regulators to proactively influence and be aware of potential changes to legislation. Careful planning of redevelopment activity and engagement with current tenants	Active management of tenancies to ensure properties are maintained to a good standard whilst occupied Tenant expectation of repair responsibility managed to encourage a more proactive approach to the upkeep of their home. Closer working between tenancy management and property team to spot potential high value voids prior to end of tenancy. Data analysis of repair and tenancy trends to spot potential high cost voids prior to end of tenancy.

Assurance: How does the association know the controls are operating effectively?	First and second tier organisational assurance is provided by the control mechanism in place surrounding the weekly monitoring of void numbers and trends, budget management and the establishment of consistent delivery standards. Third tier assurance is provided by the association's internal audit procedures and the oversight provided to the ARC.

In depth risk review

Reporting and Assurance

- Quarterly integrated report including:
  - Risk commentary
  - Compliance vs golden rules
  - Key risks and assurances
  - KPI's etc.

- Annual assurance report

What is assurance?

- In quarterly reporting
- But also in annual report to board
- Internal audit, other specialist advisers, resident scrutiny, WG assessment, KPI reporting
- ARC does heavy lifting

Keeping WG on board

- ARC Papers
- Dialogue
- Stress Testing
- Not much else really

Over to you…

- How does your board approach risk?

- How does the board gain assurance around risk? What are the challenges?

- How do you evidence a robust approach to the regulator?