





Regulation Perspective

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**housing
agency
regulation office**

Regulation Perspective

Brian Nevin
Financial Regulation Manager
Housing Agency

20th - 21st October 2016

Overview



Assessment – 2nd Cycle

- High level overview
- Emerging issues

Implementation update

- Completed
- Next Phase

Financial Standard

- T3 Pilot Update & Feedback.

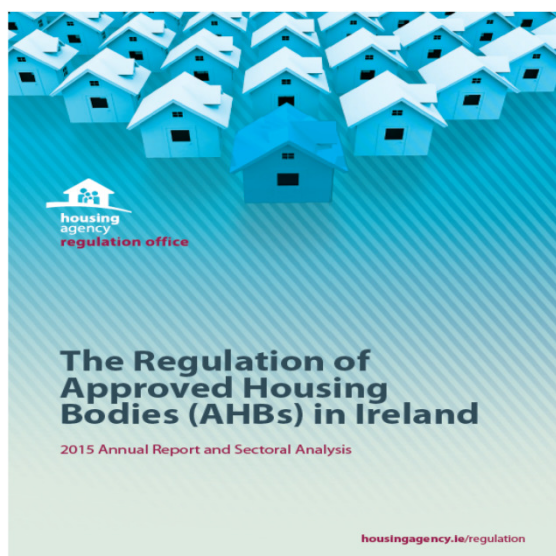
Legislation update

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“Our mission is to protect AHB assets and safeguard the interests of their current and future tenants by regulating for a well-governed, well managed and financially viable sector.”

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Annual Report



Launched this week

Available at

www.housingagency.ie/regulation

www.housingagency.ie

Assessment – High level overview



- 203 AHBs assessed (90% of stock / 27k homes)
- Vast majority satisfactory - 11 AHBs in Engagement
- Annual Review meetings with all Tier 3's
- Increased understanding / quality reporting across 3 areas
 - Governance
 - Financial Viability
 - Performance Management

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Assessment – Emerging Issues



Approach to assessment

- Risk Based / Proportionate / Feedback / Collaborative

Some Emerging Issues

- Complexities of the Sector
- Group Structures / Related Parties
- Risk Management

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Assessment – 2nd Cycle



- Board Composition – financial & risk expertise
- Sinking Fund – methodology & provision
- Financial viability & debt

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Financial Viability & Debt



- Key Financials:
 - Surplus / Liquidity / Cash Flow - to meet Financial Obligations
- Need to demonstrate good financial governance and management – that's proportionate.
- Growth plans that are viable and sustainable

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Implementation Update



| Implementation Year | Tier Level | Assessment |
|---------------------|--|--|
| 2015 | Pilot Group of Tier 3s | Assessment relating to 2014 financial performance and data |
| 2016 | All Tier 3 bodies & Pilot Group of Tier 2s | Assessment relating to 2015 financial performance and data |
| 2017 | All Tier 2 bodies & Pilot Group of Tier 1s | Assessment relating to 2016 financial performance and data |
| 2018 | All Tier 1 bodies | Assessment relating to 2017 financial performance and data |

- On Track – only change is Tier 2 Pilot for the Financial Pilot is moved to early 2017

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Implementation Update ctd.



Tier 3 pilot completed

- 9 participants
- Overall feedback was positive
- Some issues around:
 - Benchmarking
 - Consistency of plans – 4 year, 30 year financial and narrative
 - Format of the report and usability by a board / executive team.

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Legislation



- Housing (Regulation of Approved Housing Bodies) Bill 2015 – Heads published
 - Sets out Functions and Powers of a Regulator
- Oireachtas Committee report – February 2016
- Detailed legislation currently being drafted
- Rebuilding Ireland – Commitment to introduce regulation in 2017
- MOU with other Regulators

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Conclusion



- **Regulation essential** to build confidence..
- **Sector in a good position**, a lot achieved over the last 30 years, our challenge is to support sustainable growth.
- Statutory Regulation on track.....

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Thank you for your time...

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FINANCING

FOR DELIVERY & MANAGEMENT

ICSH HOUSING FINANCE CONFERENCE

#backedby
AIB

Irish Council
for Social Housing

The banner features a background image of a construction site with wooden beams and brickwork. Overlaid on this is a large teal diagonal banner with the word "FINANCING" in large white letters. To the right, the text "FOR DELIVERY & MANAGEMENT" is written vertically in white. Below "FINANCING", an orange banner contains the text "ICSH HOUSING FINANCE CONFERENCE" in white. In the bottom left corner, there is a small purple logo with the text "#backedby" and "AIB". In the bottom right corner, there is a logo for the "Irish Council for Social Housing" featuring a stylized house icon.

Regulation - Enabling Delivery: Financial Advisor Perspective



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Introduction to Centrus Advisors

Independent specialist advice on Debt, Derivatives and Corporate Finance

- ⦿ Centrus Core Values place clients first, underpinning our reputation for independence, excellence and providing the best solutions for our clients.
- ⦿ Since 2012, Centrus has advised over 125 different clients from FTSE 100 to private organisations, on over 200 separate assignments with over 30 retained clients.
- ⦿ Our team has a breadth of knowledge from our experience in investment and corporate banking, treasury, derivatives advisory and accounting. We are a FCA regulated business with offices in London and Dublin.
- ⦿ Significant expertise in the residential and real estate sectors, in particular in social housing. Other sectors in which we operates include energy, utilities, and financial institutions.



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Introduction to Centrus Advisors

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Capital Structure Optimisation & Strategy
Business Planning
Liability Management
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Systems, Reporting & Valuation Solutions

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Loan & Derivatives Valuation & Financial Disclosures
CVA/DVA Adjustment Valuations
Hedge Accounting
Collateral Management



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“An effective and active regulatory environment is one that de-risks the operating environment and reduces the likelihood that a Social Housing Provider will experience financial distress.”

Moody's Investor Service



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Funders and regulation

Funders like regulation for the following reasons:

- the predictability and stability it generally adds to the operating environment of the sector being regulated
- controls on the level of risk (operating, financial, etc.) that social housing associations are allowed to engage in
- third party oversight by regulators with their capacity to step in and prevent / reduce financial losses

Current private funders view on the Irish Social Housing Market



Tier 3 Financial Standard and Funder Requirements

| Some key requirements include: | | Financial Standard | Private Lenders |
|--------------------------------|---|--------------------|-----------------|
| Governance | • Functioning board or management committee | ✓ | ✓ |
| | • Board has clearly defined roles and responsibilities | ✓ | ✓ |
| | • Board and management have agreed strategic goals | ✓ | ✓ |
| | • Members have appropriate skill and expertise | ✓ | ✓ |
| | • Board policies in place | ✓ | ✓ |
| | • Maintenance of a risk register identifying key risks, likelihood of them occurring and proposed actions to mitigate risks | ✓ | ✓ |
| | • ... standard good governance practice on board members, meetings, compliance with company law, etc. | ✓ | ✓ |

Tier 3 Financial Standard and Funder Requirements

| Some key requirements include: | | Financial Standard | Private Lenders |
|--|--|--------------------|-----------------|
| Financial and Business Management | • Finance Committee / Audit and Risk Committee | ✓ | ✓ |
| | • Sinking Fund | ✓ | ✓ |
| | • Regular stock condition surveys, externally validated | ✓ | ✓ |
| | • Annual Report and Financial Statements with Directors Report | ✓ | ✓ |
| | • External audit process | ✓ | ✓ |
| | • Asset Register | ✓ | ✓ |
| | • Strategic Plan | ✓ | ✓ |
| | • 3 year Financial Plan | ✓ | ✓ |
| | • Board approved 30 year business plan | ✓ | ✓ |
| | • Historic financial statements and financial projections over a number of years into future | ✓ | ✓ |

Tier 3 Financial Standard and Funder Requirements

Some key requirements include:

| | | Financial Standard | Private Lenders |
|-------------------------------|---|--------------------|-----------------|
| Performance Management | • Performance Management Indicators (PMIs) in relation to rent payments and rent arrears, voids, repairs, management and maintenance costs per unit | ✓ | ✓ |
| | • Data on past performance on all the above | ✓ | ✓ |
| | • Written allocations procedure | ✓ | ✓ |
| | • Good relationship with local authority for efficient letting of properties | ✓ | ✓ |
| | • Rent arrears policy and procedure | ✓ | ✓ |
| | • Repairs policy for planned, cyclical and responsive repairs | ✓ | ✓ |
| | • Tenant communication and feedback strategy | ✓ | ✓ |

Additional requirements...

- Detailed assessment of the long term financial model together with scenario testing based on their assumptions.
- Various meetings with senior management' etc. to gain a detailed understanding of an organisation's governance, strategy and business planning, risk management processes and board/senior management debate and support.
- An in-depth understanding of the rationale behind the debt structure, including the AHB's debt and hedging strategy, which underpins the business plan

Additional requirements...

- ❑ Treasury Management Policy, covering key treasury risks of the organisation such as:
 - liquidity risk,
 - credit counterparty risk,
 - interest rate risk,
 - legal and regulatory risk and
 - operational risk.
- ❑ It should also detail some key areas such as:
 - decision making,
 - performance measurement,
 - segregation of duties and
 - reporting requirements

“I am for maximum supervision and minimum regulation”

George Soros

