IFF Research

Evaluation of the in-depth assessment process

The Regulator of Social Housing

April 2021

Contents

1 Executive summary

- The professionalism and conduct of IDA teams were consistently praised, as was their knowledge and approach.

- The IDA was felt to be an important element of regulating the economic standards, alongside quarterly surveys and annual stability checks.

- RPs would benefit from greater guidance on the level and depth of their evidence submission.

- RPs consistently felt the IDA followed the guidance set out in Regulating the Standards.

- Some RPs were surprised by their regulatory grading, typically in the case of downgrades.

- All RPs mentioned making some changes as result of the IDA process, most commonly in the areas of stress testing and mitigation planning, risk management and board reporting.

- The investigative depth of the IDA process was occasionally questioned. The success of the IDA process was felt to be contingent on the RP being willingly transparent and honest.

- RPs would greatly value written as well as verbal feedback from the IDA process.

2 Background

The In-depth assessment (IDA) process is a key regulatory tool for the Regulator of Social Housing (RSH). It consists of an evidence submission by the Registered Provider (RP) and an onsite (or currently remote) visit by an IDA team, to interview key members of the organisation's leadership and observe governance meetings. The purpose of the IDA is to gather assurance that registered providers are meeting the expectations of the regulator's standards and in particular, the Governance, Financial Viability and Value for Money standards.

The IDA was introduced in 2015, and as such the first four-year cycle of IDAs for all RPs with over 1,000 social housing units has recently been completed, meaning all RPs have now had at least one IDA. RSH therefore felt this was a good point at which to evaluate the effectiveness of the tool.

In addition to the IDA, the regulator also relies on quarterly surveys and annual stability checks to maintain assurance about RPs compliance with the economic standards, as set out in the document 'Regulating the Standards'. Although referenced by some RPs, the quarterly surveys and stability check surveys were out of scope for this evaluation.

Aim

The aim of the evaluation was to assess the effectiveness of the first round of IDAs and identify points of learning and areas for improvement in the model itself and its delivery that can be factored into the current IDA programme. This evaluation will support internal RSH work to strengthen the IDA methodology.

Research questions

The objective of the evaluation was to answer the following questions:

- How effectively do RPs consider that the IDA programme has been delivered?

- Was this in line with their expectations and the approach set out in Regulating the Standards?

- How effective do RPs consider IDAs to be as a means of gathering assurance about their compliance with RSH standards?

3 Methodology

The evaluation had two research strands;

- An online survey, distributed to all 218 RPs that own 1,000 or more social housing units, who are subject to IDAs.

- Twelve 30 to 45-minute tele-depth interviews with Chief Executives of RPs who have had an IDA in the past 24 months.

Online survey of registered providers

The questions for the online survey were drafted by IFF's specialist housing research team, based on an initial draft survey supplied by RSH.

To encourage responses and also to give assurance of the legitimacy of the research, surveys links were distributed via an email from the RSH CEO, Fiona MacGregor.

Each RP was sent a unique survey link, allowing us to monitor responses and send sensitively worded reminder mailings to non-respondents at key intervals, encouraging participation. This approach did not preclude respondent anonymity in any way, as at no time were RSH able to identify which RPs or individuals had given particular survey responses, and only fully redacted and anonymised data was provided back to the RSH team.

The online survey was distributed on 28th September 2020 and fieldwork ended on 6th November 2020, giving RPs a total of six weeks to complete the survey request. In total, 98 RPs responded to the survey giving a response rate of 45%.

This report focuses on the findings of the qualitative depth interviews detailed below and also includes headline findings from the online survey.

Twelve depth interviews

To ensure a representative sample of RPs were approached for interview, RSH provided a comprehensive list of all RPs who have received an IDA in the past 24 months. We then profiled these providers by stock size, type, regulatory judgement and geography, and proposed a hypothetical 'ideal' profile for the twelve organisations to be approached.

Once agreed, we matched this ideal profile to the full list of RPs, identifying twelve to contact for interview. The selected RPs were invited to interview by email and were provided with access to an online booking system to select a date and time to be interviewed at their own convenience.
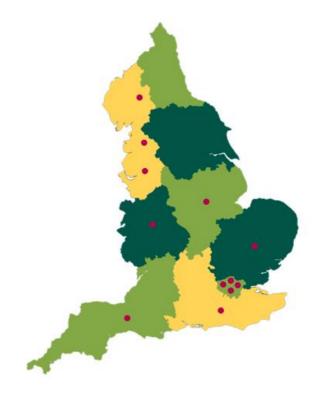
The topic guide for these interviews was again drafted by IFF's specialist housing research team, based on an initial structure supplied by RSH.

Each interview lasted between 30 and 45 minutes and was recorded for completeness of reporting.

In total, we interviewed; 2 Non-Stock Holding Parent Groups, 6 Traditional Housing Associations and 4 LSVTs. All interviewees received a compliant regulatory judgement (5 V1s and 7 V2s, 9 G1s and 3 G2s). Of the twelve, 6 retained their previous regulatory grading, 4 were downgraded and 2 were upgraded.

The geographical spread of the twelve RPs interviewed is shown in the map opposite (to maintain anonymity of interviewees the markers denote their region only, rather than more specific location).

4 The regulatory judgement

Was the regulatory judgement expected?

The online survey found that 85% of responding RPs felt their grading was as expected, 12% did not and 3% were unsure. Considering these responses by the IDA outcome, 100% of upgrades were expected, compared to 92% of retained grades and 38% of downgrades.

Reflecting the survey, depth interviewees also had mixed views on whether the grading was expected. Although retained grades and upgrades were again typically expected, downgrades sometimes were and sometimes were not.

"Yes (in line with our own assessment), we expected to come through the IDA process with challenge, but we expected that we would retain a G1/V1."

Yes, it was really. I mean, I think, you know, obviously, we hoped to keep the G1, but we felt that there were potential reasons why that might slip to a G2."

"No, broadly not (in line with our own assessment). I mean, I think we got a sense, as the IDA process was going on, that that would be the way it's heading, but, prior to that, not necessarily the case."

"There were some things that we challenged through the process. I think by the end of the process we weren't surprised that we were downgraded to G2, but at the start of the process, we would not have expected to be downgraded to G2."

Interviewees' views on their viability grades were more varied than views on the governance grades; some suggested that V2 might actually be optimal, as there was a minority

perception that to achieve a V1 you have to restrict the organisation's investment risk and gearing too harshly, which may be in direct opposition to the organisation's development ambitions in particular.

"We're a relatively young stock transfer with a different business plan and different relationship with our funders, which inherently has always seen the regulator viewing that as a V2. So, until that changes, until we refinance and effectively mature, then I think we would always be seen as V2."

"If you assume that all (our benchmarking peer group) are exactly the same, then you would naturally think that my organisation should be V2, however we are slightly different. So, we did push back on the viability a bit, given our quite unique position with no private sales exposure in the current year."

"We actually challenged the regulator, saying that, actually, for those people that their putting in as V1 at the moment, they should actually be questioning whether or not they are making appropriate use of their assets and investing and achieving value for money as much as they should. So, that's, kind of, an interesting spin on it because we were saying that, actually, you should be stretching your business to get the most out of it."

"We've had a number of conversations around do we want to move back to a V1, and, actually, what it would take to move back to a V1. Because of the nature of the diverse areas we work in, it wouldn't be appropriate to try and move back to a V1 because it would mean us changing too much within the organisation."

5   How the IDA was conducted

Sufficiently tailored?

In the online survey, 83% of RPs agreed the IDA was well tailored to their organisation (8% disagreed). RPs who focus on specialist housing were less likely to feel this (71% agree).

When depth interviewees were asked if the IDA felt sufficiently tailored to their organisation and areas of key risk, the general perception was that the IDA took key themes from the annual sector risk report, then added a moderate amount of tailoring to the organisation. Generally, interviewees felt this level of tailoring was appropriate, as the regulatory standards remain consistent and therefore IDAs also needed a level of consistency.

"It was as tailored as it needed to be in that I don't think it should be too tailored. I think it should have a degree of consistency. So, kind of, all the initial information that was requested and the initial discussions were clearly around the key indicators and I did feel the types of questions that were asked were either based on a consistent framework or based on an understanding of the organisation."

"I don't actually think I thought it was tailored at all, really. It, kind of, felt, like, you know, we're going into an IDA and here are the things that we need to assure ourselves about in relation to the regulatory code."

"If you're in the top 40 housing associations, you know that they're going to look at your development numbers and you know they're going to look at your liquidity and you know that they're going to look at what you're doing with pensions and what's happening with margins."

"You get the standard framework of questions which sets it up. Clearly, then there are one or two bits you can see are different. Now, the reason why you know how it works is because, funnily enough, all HAs swap these with each other."

"So, if you think about, clearly every year they produce a sector risk profile. And in that sector risk profile, that effectively identifies the issues that have been brought to their attention that associations are grappling with, and that forms a backdrop."

Evidence submission

When asked about the evidence submission process prior to the IDA visit, there were some tensions amongst RPs around the amount of evidence it is appropriate to submit, with some feeling they would benefit from more guidance in this area. Some RPs were praised for the succinctness of their submissions, while others felt criticised for submitting too much detail.

"I was involved in the earlier IDA at (RP Name) as well in 2017, so certainly second time round the information request was more tailored. It wasn't a significant data dump request, to be fair, but there was no way the inspection team are going to read every document that gets sent to them."

"When we submitted all the evidence, and they just said that it was really well submitted, that we hadn't overburdened them with everything, that we hadn't just sent everything. We'd made sure that everything was relevant to what they'd asked, we uploaded it in a really detailed, methodical manner, I guess, that was easy for them."

"I'd actually prepared what we called an 'overview of evidence' for each of the areas that they wanted to do, and then all of the supporting documents. They said that we had submitted way too many supporting documents. But I thought it was appropriate to evidence not just a snapshot, one moment in time."

There were also mixed views on how 'prepared' the IDA team felt when they arrived on site following the evidence submission. Some interviewees were of the view that not all the evidence submitted had been reviewed, while others praised the level of organisational understanding shown.

"(Gone through the background documents) in amazing detail. Yes. They had clearly read it. I recognise you could swamp them with information, so, we worked really hard to focus what we sent them, you know, for the things that answered the questions."

"I felt they were well prepared in respect of, they'd obviously taken time to understand the problems that we'd experienced, where the real crunch points were."

"I don't think they understood the organisation when they walked in. I don't think they'd done their homework. I think it was a journey of discovery."

"It became clear that they hadn't read a lot of the stuff that we sent because some of the questions were making it clear that they hadn't read or hadn't understood, but there was quite a big sense that they hadn't got to a lot of the documents that we'd send them."

Time 'on-site'

As a number of RPs we spoke to had an IDA completed after March 2020, the IDA was completed remotely rather than directly "on-site". The time the IDA took ranged from a few hours of remote meetings to more than a week with notable variations in timescales between interviewees. Typically, the IDA meetings were recalled to include a Board session, an audit and risk committee, interviews with the executive team and the chair of both the Board and audit and risk committee.

"I think we probably would have liked more time. So, when you think, previously, it felt very rushed and it is quite pacey. So, we went from interviews with me and the chair straight into a board meeting, and then second day was a few interviews and then the team were gone. They were probably on-site for a day and a half, maybe, maximum."

"They didn't interview many and it was done at a very senior level, I think, is the best description. I suppose that's best because, at the end of the day, what they're looking for is that oversight, strategy and governance, which is the critical part."

"So, they came and observed a group, an audit and risk committee in December and then, in January, they had two days on site because they came to meet a number of directors and then came to a board meeting and did some interviews. So, yes, it was two days plus attending the audit and risk meeting."

"It was certainly a week, and then they came back for a couple of days. It was that sort of period. Yes. They met with the management team and the chair of audit, so it was certainly over a week."

When asked about the IDA team's conduct, the teams' professionalism, knowledge and interviewing approach were consistently praised. In the online survey, the knowledge and understanding of the IDA team (86% satisfied) and the organisation of the IDA (85%) were both highly praised.

"I think they were exceptionally professional on-site."

"The team were very polite, appropriately challenging. You know, I think a good relationship but not too much of a good relationship because they're the regulator."

"Well, personally, I thought it was very good. I think, you know, the team that carried out the IDA, I thought, were very professional, extremely pleasant, engaging. It didn't feel like an arduous experience. It felt like an honest appraisal of what we do, how we do, what our relationships are."

Some interviewees mentioned minor communication frictions, for example IDA teams not speaking 'plain English' or making the occasional comment which was felt to be misjudged.

Some interviewees also felt the seniority of the IDA team had an impact, with the operational knowledge of some IDA teams felt to be in need of development.

"As I said, at the most fundamental level I think the team struggled conceptually and intellectually to understand how it worked."

"Probably some of the financial people require assistance with asking questions in plain English rather than finance gobbledegook."

"My experience, at the beginning of this whole four-year process in another organisation, was that the team on site were, I suppose, relatively junior. And there were a number of things we had to, sort of, keep explaining the same issues because they didn't quite understand it."

"It does undermine your confidence a bit when you're having to explain stuff when you think, 'Actually, this is pretty standard to anyone that's run a housing association or a housing function.' So, I think having someone who's a bit more operational. You know, there's enough retired old chief execs out there who I'm sure would love to come in and do a few inspections. Because actually it would help with some of the credibility."

In line with Regulating the Standards?

In the online survey, 90% agreed the IDA was carried out in line with Regulating the Standards, and across all twelve interviews, all interviewees felt their IDA was carried out in line with Regulating the Standards.

"Yes, I think it was very much standards-driven. You know, I think the questions were very much standards-driven. I'm sure they all had a template and they all followed the template, so it just felt like that."

"We'd prepared everything in terms of briefing our board members based on, kind of, what's outlined in the regulating standards and the information that was requested was the kinds of things we were expecting and the focus areas were what we were expecting. So, yes, agree on that point."

"It, now, does feel like they are the regulator and that they know their business, particularly in the financial viability space. They're much sharper. I've also seen very good work from the team that goes into problem cases. We took over a problem case and I was really impressed with the way that the team that does naughty step stuff has really been enhanced

and developed under (new director). I think it's about kicking on from here, but the model is a good model."

"It delivered what it was there to do, which is regulate the standards, as they were then. So, yes, it was as expected."

6   Impact on the Registered Providers

Format and content of the feedback

The format in which IDA feedback was received varied by interviewee, all feedback was predominantly verbal, received by attending RSH offices, conference and video calls. One interviewee had specifically requested written feedback and had received it but felt this was not 'the norm'.

"We had a conversation with the lead regulator, with me and the chair, to go through what they'd picked up. And then, I asked for that in writing. We did get that, it was in the form of a letter. I'm not sure that they would normally automatically provide that."

In the online survey, 78% found the IDA feedback helpful (11% unhelpful); increasing to 81% of RPs who were downgraded.

For depth interviewees, generally the feedback received was perceived as comprehensive and useful in terms of understanding the IDA team's perspectives and potential concerns, as well as forming a basis on which to develop improvement plans where required.

"I think it was…really comprehensive feedback, and that's how we based our improvement plan to get forward."

"I felt that the feedback was extremely open and honest, and it was very much a two-way street. They were looking for ideas as well."

"It was really helpful. You know, and in fairness there were a few areas where they'd made suggestion, you know, from their point of view what they'd seen elsewhere, how we may, sort of, consider things, maybe, in a slightly different way in the future. You know, nothing that caused them a concern from an IDA point of view, but things that they could bring from their experience elsewhere that might help us strengthen our compliance. So, that's really helpful."

A number of interviewees highlighted areas in which they would have liked further detail or clarity.

"They kind of said in the meeting, 'You're a weak V1.' They never really explained that very well to us. There was, kind of, comment about, you know, 'It's for us to regulate and we're not going to tell you every single bit about how we regulate,' which I get. If they want us to improve and if they also want us to understand the concerns, it would have been helpful if that was clearer in the feedback."

"I think we challenged some areas of the feedback, and there was areas that we didn't get any feedback on that we asked for feedback on. So, for an example, we had five people observe our board meeting for three and a bit hours and yet there was not one comment during the initial feedback meeting about what they observed at the board meeting."

The lack of written feedback was a consistent concern across multiple interviews.

"I suppose the idea of having a report, it gives you something a little bit more tangible at the end of the process. So, something that says, 'Here's the scope, here's some views,' you get some guidance, you get some things that the regulator's concerned about."

"They were really useful to provide some further context, and I took a range of notes that enabled us to form the action plan. What I would say is, what's slightly frustrating is there's no written feedback. And I think that would be helpful because there was reference made at various points during the IDA, (to the previous IDA when our current senior team was not in post) so, we weren't necessarily aware there was anything that might've been of concern because all we knew from last time was we're a G1/V1, whereas if we'd maybe known these were areas that piqued their interest last time around or they want to see improvement on, that, kind of, helped us for this time."

Changes made as a result of the IDA

In the online survey, 14% of RPs felt no changes were required following the IDA. The most common changes reported were; stress testing and mitigation planning (59%), risk management (31%), Board reporting (28%), and Board skills (23%).

For the depth interviewees, when asked what changes had been made to the organisation as a result of the IDA, interviewees reported;

- Greater focus on stress testing.

- Reviewing skills gaps in Board membership.

- Greater external validation on stock condition.

- Greater focus on risk appetite and risk reporting at Board level.

- Reviewing presentation of materials to Board to 'thin out' Board papers and make them more digestible.

"We've obviously looked at stress testing."

"They also said that some other associations had tried to bring risk appetite in. We've done that. We've worked that through. We've got risk appetite statements in relation to each of the risks."

"I think one of the minor changes we made, and it is minor, we changed the remit of the finance committee to be finance and development."

7 Future improvements

Are IDAs effective?

In the online survey 77% of respondents felt IDAs are an effective means of gathering assurance; increasing to 94% of those RPs who were downgraded.

In the depth interviews, IDAs were generally felt to be effective as a key aspect of regulating the economic standards, alongside quarterly surveys and annual stability checks, although a minority of interviewees were sceptical about how in depth an assessment can be in the time spent with each RP.

"I've been asked to get involved in two other organisations where the IDA process has identified weaknesses, and you know, in both of those cases, they were 100% justified and warranted, from the experience I've had, the IDA process has identified exactly what it's there to identify."

"I'm not massively convinced, I have to say. I think when I see some of the outcomes, I wouldn't want anyone to be downgraded. I'm not saying people should be downgraded but I'm not sure it's a real test of an organisation's strength, actually."

"At the end of the day we benefit from being part of a regulated sector and I recognise regulation is vitally important and I support regulation. So, I'm not one of these who says we should not be regulated. Far from it, we need to be regulated to benefit both from very significant public subsidies we get and for borrowing money at super low rates. You still feel there's an element of tick boxing in the IDA. I don't think IDA should be about tick boxing, I think they should be about the regulator understanding that organisation."

"Our approach is to embrace it. So, if anything's identified we could do better at then we will do, but there's a weakness in a grading system that it creates a sense of trying to get the grade rather than learning and I think that's a weakness of the system if I'm honest with you and I've said that publicly before. It's quite hard to get people to want to learn while, you know, you're wielding a negative outcome in front of them. You can argue the IDAs, what are they for? Well, they're about spotting issues, of course they are, but their primary driver needs to be a constant process of checking."

"I absolutely do because I don't think the annual stability checks by themselves don't do it. I think they just allow a look across, don't they, in terms of key metrics? I think an IDA allows them to do a bit of a deep dive."

"I mean, I suppose it's a useful string to the bow, I would say. So, the value of an IDA (balanced against data returns) is it's a more rounded assessment of the organisation, and we get a chance then to discuss the context that we're working in, the improvements we're making, our focus in terms of the areas that we see as being weaker."

It was felt the effectiveness of IDAs is often primarily contingent on the RP being willingly open, honest and interested in the process. Some felt the IDA process was not in depth

enough to identify weaknesses if the organisation chose to hide them, so transparency was again key.

"I think the important thing to make it work is the honesty and transparency of the regulated party. I think if you're anything less than that, I don't think it helps the process."

"You also need to feel a certain amount of confidence to be able to talk very openly about your business. I think we did that more in the second one than in the first one. I would hope that would continue. I would hope people aren't sitting there looking for you to walk into bear traps. Hopefully, you don't walk yourself into bear traps. But actually, you want to get something out of the regulator. You've put so much work into it, you want to get something out of it as well."

"IDAs can't get as in depth as they should, the Audit Commission was nuts and bolts, it was a bit of everything, and you got a really good service improvement plan out of those as well. So, I think it went from one extreme to the other."

What changes would RPs like to make?

As previously discussed, when interviewees were asked about the format and helpfulness of the feedback received, the regulatory judgement notice was not felt to be sufficient written feedback. The majority of interviewees felt they would like more detail to support making changes and improvements, and as an audit trail for future leadership teams.

"Probably the mistake in 2017 is that we didn't minute the feedback meeting, but this time we both made very detailed, copious notes so that we'd got a very good record of the discussion because obviously you don't get any minutes or notes from these discussions, you just get the regulatory judgement."

Interviewees had inconsistent views on having consistent IDA teams, some would have preferred a consistent IDA team but didn't get one and some would like more rotation.

"Certainly, I'd like consistency within a team. So, I don't want another team next time around and then go through the same thing again. I accept people are going to move around, but actually all the people that did our IDA back in 2017 are still working for the regulator."

"I do think they should look at some rotation. They may well do this, but I've been with the same people forever. That's quite nice because I like them and I know I can pick up the phone and chat to them, but it's not good practice."

A number of interviewees mentioned having an initial discussion at the start of the IDA onsite work to understand the IDA team's view following the evidence submission and to give a chance for the RP to explain their current focus and direction.

"I suppose the main thing to me, it'd be useful to have that indicator earlier on if there's anything that's flagging an area of concern that we're aware of."

> *"I think what would help is if there's a pre meet, some discussion before. So, we can understand much more and it's about tailoring it to the organisation."*

Some interviewees felt more assurance of regulatory compliance could be gathered if there was a greater focus on executive team rather than just Board at future IDAs.

> *"What I would say is, understandably, there is a huge focus on the board. You could argue whether there's too much focus on the board, we cannot expect our board to have the depth of insight in every single area, and that has to be delegated to different parts of the organisation or delegated to the executive team."*

> *"I think something about more of a focus on the executive, not just the non-executive, would be helpful. I think a recognition that it's a not-for-profit organisation and we do pay our board members, clearly, but as a not-for-profit organisation, our board members are only going to be able to give up so much time per year. So, their knowledge is not going to be at the same level as the executive team."*

RPs who had received a virtual IDA talked about some retention of face to face visits in the future as far as possible, as remote IDAs felt overly intense.

> *"We were quite early on in the online world, and it was so intense. If you meet people face-to-face, I'm a nice smile kind of guy, so you have a chat, you can get to understand people. But this is very two-dimensional, and it becomes very transactional and that might be fine for getting the job done, but it becomes very intense. I imagine if I was a regulator, I would get a lot from just walking in an organisation."*

Regulation of small to medium sized RPs was a concern for some, who felt the regulator has a much less well-developed relationship with smaller organisations.

> *"I do feel that medium and smaller associations are at somewhat of a disadvantage in that the large organisations have a pretty close working relationship. They have regular contact (with the RSH), structured contact. Smaller organisations only have contact on a reactive basis. So, what that means is that if something occurs, the regulation team, apart from what they see on paper, they don't really know us as an organisation."*

Finally, a number of RPs would also like greater annual direction from the regulator on focus areas across the sector, beyond the sector risk report.

> *"What would help is the regulator also, from time to time, gave us all hints or more importantly indications of good practice etc., which we used to have, but, you know, is less now."*

> *"There was, kind of, comment, 'It's for us to regulate and we're not going to tell you every single bit about how we regulate,' which I get. If they want us to improve and if they also want us to understand the concerns, it would have been helpful if that was clearer in feedback.*

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