



PUBLIC MINUTES
of the Board meeting
on Tuesday 18 October 2022
FG47 Marsham Street and MS Teams

6 Remote and virtual participation

6.1 Any member may validly participate in a meeting virtually through the medium of conference telephone, video conferencing or similar form of communication equipment, provided that all persons participating in the meeting are able to hear and speak to each other throughout such meeting, or relevant part thereof. A member so participating shall be deemed to be present in person at the meeting and shall accordingly be counted in a quorum and entitled to vote.

6.2 A meeting shall be deemed to take place where the largest group of those members participating is assembled or, if there is no group which is larger than any other group, where the chair of the meeting is.

Present

Bernadette Conroy (BC)	Chair
Simon Dow (SD)	
Paul Smee (PS)	
Liz Butler (LB)	
Kalpesh Brahmhatt (KB)	
Deborah Gregory (DG)	
Richard Hughes (RH)	
Sukhvinder Kaur-Stubbs (SK-S)	
Geoff Smyth (GS)	
Fiona MacGregor (FM)	Chief Executive and Board Member – present for part of the meeting

In attendance

Jonathan Walters (JW)	Deputy Chief Executive (DCEO)
Harold Brown (HB)	Senior Assistant Director, Investigation and Enforcement (SADI&E)
Richard Peden (RBP)	Director, Finance and Corporate Services (DF&CS)
Kate Dodsworth (KD)	Director of Consumer Regulation
Jim Bennett (JB)	Assistant Director, Policy and Communications
Will Perry (WP)	Director, Strategy
Maxine Loftus (ML)	Director, Regulatory Operations
Anna Moore (AM)	Senior Solicitor attended for ERT

Minutes

Christine Kitchen (CK)	Board Secretary
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1 Welcome and apologies

01/10/22 There were apologies from Jo Boaden (JBo) and Emma Tarran (ERT).

2 **Declarations of Interest**

02/10/22 DG confirmed that she is now retired from Hogan Lovells.

03/10/22 PS said he was no longer part of Board of New Homes Ombudsman, but was now on the Board of Now Pensions.

3 **Confidential and Public minutes of the last meetings – 25 August 2022 and 27 September 2022**

25 August 2022 public minutes

04/10/22 The public minutes of the Board meeting on 25 August 2022 were APPROVED.

27 September 2022 minutes

05/10/22 Subject to a few amendments, the confidential and public minutes were APPROVED.

4 **Matters arising – Members NOTED the actions.**

I&E update- Larch

06/10/22 A report will be taken to ARAC in January 2023.

Strategic Risk Register

07/10/22 The revised register will be presented to ARAC in November.

External Board effectiveness

08/10/22 The procurement has been approved. The specification is being drafted and will be shared with the designated Board Member.

Annual Report and Accounts

09/10/22 This will be presented to ARAC and Board on 7 November. RBP advised members of a potential delay to the NAO signing off the ARA as a result of a delay from auditors signing off HCAPS and Westminster pension calculations. This is unlikely to have an impact for us and it is suggested that we should proceed with the scheduled meeting as the ARA will be signed by the AO on the recommendation of the Board. Any changes to pension numbers are likely to be non-consequential, but will be reflected in the ARA before signed by the AO.

5 **Board forward planer**

10/10/22 This was NOTED. Feedback on this the first “strategic meeting” will be sought at the end of the meeting.

6 **Chair’s update**

11/10/22 The Chair covered the following updates:

- Ministerial announcements have been made, with more expected but the situation is still fluid.
- Market turbulence, interest rates are rising which will potentially impact the liquidity in the sector.
- WP, JW and BC at investor's conference on 20 October. Our message will be that this is still a good sector to invest in.
- NED recruitment - Losing two NEDs next year. BC explained the recruitment process is going well and the Public Appointments Team have created the

packs. Early appointments especially for the ARAC Chair will hopefully allow some time for a handover.

- Swan – the credit rating downgrade is in the public domain.
- Housing Ombudsman has published a report on Clarion.
- Staff conference had gone well, particularly given the last minute change to on-line.

12/10/22 The Chair invited PS to update on the recent Nominations and Governance Committee meeting. PS advised members that the main discussion had been the 2022-23 pay award which is centrally determined. Also discussed was the consultation being run on changes to the staff pension scheme. This consultation is being run by HE so we have limited influence on the process.

7 Deputy Chief Executive update

General updates:

13/10/22 *Grenfell United*: meetings with GU – we met with GU who are currently lobbying on Professionalism and Inspection amendments to the Bill.

14/10/22 *Meetings with Parliamentary and cross party peers*: We met with Baroness Scott, Parliamentary Under Secretary. We subsequently also had a meeting with cross party peers Baroness Wilcox and Baroness Hayman.

15/10/22 *AO meeting* – update noted.

Policy updates:

16/10/22 *Rent consultation* - closed last week.

17/10/22 *Social Housing Bill* – is at report stage in the House of Lords. The issues arising in committee stage are likely to be made at report stage:

- Energy efficiency to be added to our fundamental objectives and are identical to those made by Baroness Pinnock (Lib Dem).
- Inspections - Lord Best tabled an amendment at report stage. As drafted, it mirrors that of OFSTED inspections - DLUHC have drafted amendments that require us to have a plan on how carry out inspections and expectation on us to deliver it. How we effect it will be entirely in our control (rather than dictated to us) so wouldn't compromise our independence.
- Professionalisation - tabled at committee and re-tabled at report stage.

19/10/22 *Grenfell inquiry* – NOTED.

Operational Updates

20/10/22 *Registration's update* – NOTED.

21/10/22 *Regulatory Operations Update*: NOTED

Material Mergers:

- Flagship, Future and BPA merger has been called off.
- Optivo and Southern still going ahead.

22/10/22 *Investigations and Enforcements*: updates NOTED, in addition, members were given further updates.

- Larch hearing on 26 October in court next week.

- 24/10/22 Performance update: the updated was NOTED, there will be a full report to the November meeting.
- 25/10/22 Stakeholder engagement and media:
We are attending a number of stakeholder/sector events including lender and rating agencies. Common discussion is rent settlement/cap and the timescale for a decision is paramount to enable RPs to issue rent notices and make provisions.
- 8 Executive Group away-day**
- 26/10/22 DCEO gave members a readout from a recent away-day where they considered a range of strategic issues related to getting the organisation ready to be a proactive consumer regulator from the 1 April 2024.
- 27/10/22 Recruiting new staff: We are going to move to a HR partnering model to allow HR to take more of the burden for recruitment, allowing managers to focus more on their core roles, this will mean we need to recruit more into HR at first but in the longer term will be more efficient. We will also look to take advantage of the increasing levels of recruitment to run a concerted campaign and to attract a wider and more diverse range of candidates.
- 28/10/22 Members discussed the issues we are facing and DCEO responded saying that we need to maximise what we can do in recruitment terms and make sure the RSH is seen as an exciting and attractive place to work. In response to a query about how we compare on salaries with other regulators, DCEO advised we are comparable and that the benefits we offer are also attractive. It was noted that there is a tight labour market nationally and that we need to ensure that we stood out as a good employer, carrying out a really important role. We are currently considering how we structure consumer regulation and there is significant work going on within the organisation that will help us make the final decisions. The Chair wanted us to challenge our approach to wellbeing of staff coming into winter. The recent staff survey shows some general concerns about cost of living increase that is affecting lots of people, but as an employer staff do not think there is anything more that is needed at the moment.
- 29/10/22 Long term structure of the organisation: Members were given an overview of the thinking on structuring of the consumer regulation function in both the short and long term. The risks to consumer regulation in light of current economic volatility was acknowledged, but we need to keep up the momentum on the introduction of consumer regulation.
- 30/10/22 Both consumer and economic regulation will be based around standards and there will need to be a synergy of skills and process/approach. We need to use approaches that are tested and well respected and apply them across to consumer regulation. It is hoped that this will allow some internal flexibility for staff to make the job more interesting etc. We have discussed the timetable for this with staff and members noted the timetable which represents the operational approach. Operational staff are eager to work with consumer regulation staff to test this through the pilots, but acknowledged there will be challenges.
- 31/10/22 Members raised queries about:
- timescales and management structure: assurance was given that the timescale is favourable as its longer than we initially expected.

- *assurance that there will be systems in place to support staff so they are confident to regulate:* this will be driven by corporate ownership of decisions and infrastructure which will ensure decisions are taken within corporate risk appetite and are consistent. We have started a project to improve HR and OD functions.
- *manage the risk of having a large cohort of new recruits:* we will also build out from operations where staff have experience of being regulators and build on these skills.
- *ensure we have the support of RPs and LAs:* we are putting more resources into engaging with and preparing RPs and LAs in particular. Acknowledged that consumer regulators have been disbanded in the past and consumer regulation is harder to maintain, but we are confident that we will be able to balance empathy with strong but fair regulation.

Members supported the model and asked that the Board is kept informed on progress with pilots and the balance of approach taken with RPs and LAs.

9 Government priorities

33/10/22 There are not many updates to give members as there has not been a lot of engagement recently. The SoS Simon Clarke in post. Recent meetings with the department have focussed on supply and rents and we are doing a lot of work with them to understand what services and new supply will be forfeited before we see the benefits of a rent settlement and the complexities of delivery in the current financial climate.

34/10/22 Our legislation has cross party support and the Bill should pass quickly. The Board needs to be aware of the risks we are facing with potential shifts in Government and their priorities.

10 Sector Risk Profile (SRP)

35/10/22 WP presented this item. The SRP is due to be published on 20 October and had been the most difficult one to prepare this year with macro and financial risk crystallising and providers having to implement mitigations. The SRP presents the key risks that the regulator expects PRP boards and executives to be considering. Members noted the presentation.

Summary of discussion that followed the presentation:

36/10/22 Discussion of the SRP risks focused on the key messages we were intending to convey, the interaction between financial and consumer risks, how we expected providers to prioritise their risk responses, and the differences in exposures between PRP and LARPs in terms of accountability, resourcing and delivery structures.

37/10/22 Members noted that the regulator does not determine or direct how providers respond to risk, but that it expects sound decision making processes which focus on maintaining stability and viability, and prioritise safety and essential services. It is essential that providers remain viable and well governed to be able to provide good services to tenants and maintain market confidence in the sector. Our messaging in this area is consistent with the implementation of proactive consumer regulation.

38/10/22 Local authorities' risk exposures are different from PRPs in that they have a wider range of responsibilities, and a tighter financial position. Members

discussed the interaction between regulatory expectations and local accountability, and noted that the regulator is building relationships across the LA sub-sector.

39/10/22 In conclusion WP said that although the situation is tough, the sector is resilient, compared to previous downturns the sector is better governed and has more effective risk management. There is a clear sense of prioritising safety and services among landlords.

11 Rents and financial risk

40/10/22 Members were advised that the slide pack presented a range of modelled scenarios for different rent caps showing the impact and potential mitigations. These mitigations were purely illustrative and not necessarily what providers would do in practice. Members also noted that while the rent cap is very significant, the effects of increasing interest rates and further inflation are at least as large in aggregate as the effect of the rent cap. We continue to closely monitor providers identified as having high levels of floating rate debt.

41/10/22 Four provider archetypes and their ability to mitigate rent impacts through reduced capital expenditure were discussed.

- *Provider 1:* Large and complex London based provider moves from V1 to V2 as have less options for mitigating downside risks.
- *Provider 2:* Large national provider could mitigate, moves from V1 to V2 would have impact but could recover.
- *Provider 3:* Smaller regional provider, which is very robust.
- *Provider 4:* small regional organisation, highly geared with little headroom. Already below 100% interest cover. Can not mitigate as low level of uncommitted development spend.

42/10/22 There was a discussion about the relative size of each cohort and the ability of the sector to mitigate future financial risks. There was also reassurance that there remain a number of organisations who retain financial capacity to help to resolve issues elsewhere in the sector.

43/10/22 Members noted that the number of providers at V2 following the Stability Check round, as we have assessed that the capacity of providers to manage downside risk has reduced. Members noted that the number of providers at V2 following the Stability Check round has increased [significantly], as we have assessed that the capacity of providers to manage downside risk has reduced. The proposal is to publish the regrades in mid November, before which we are increasing sector communication and plan for an article to appear in sector press in advance of announcements of new grades.

44/10/22 Members discussed V2 status, noting that V2 is a judgement on an organisations' ability to manage further downside risk and that this had reduced. All V2 gradings carry a narrative which explains the reasons for the grade. V3 organisations are in special measures and the reason for this is invariably poor treasury arrangements.

In response to questions about whether there were particular types of organisations whose capacity was particularly reduced, it was suggested that there are three groups of providers that are more exposed:

- Those with significant amounts of supported housing as margins are tighter than traditional HAs but the level of debt in these organisations is low.
- Smaller organisations who have recently pushed themselves and taken on relatively large amounts of debt for growth. .

- Organisations with “complicated/different” business models or funding arrangements that have not previously been tested by this degree of market turbulence.

45/10/22 Members discussed how as a balance to viability grades, governance grades can be used to differentiate organisations and noted that while we have no expectation that a V1 grade was a realistic target for providers, G1 should be the target for all providers. Members requested an update on G2/V2 organisations. **ML**

46/10/22 Members noted executive’s view that, although multiple failures were unlikely, it was more probable that an external event affects several providers at the same time rather than a domino effect of one provider failure leading to another. We monitor such exposures through our Stability Checks and quarterly surveys, and can request more frequent data from providers where we have particular concerns.

47/10/22 Past experience in the Global Financial Crisis has shown the value of the regulator being able to respond flexibly in the event of a number of concurrent provider failures and our operating model allows us to move resources as needed. Reliability of income is credit positive in this sector, but we are always looking for black swan and downside scenarios that may cause an issue. The quarterly survey will provide hard information, but we also use a range of other approaches to gather more anecdotal and softer intelligence that informs our thinking and we stay in close contact with officials at DLUHC and HMT.

48/10/22 Members thanked WP and the other members of the executive for a very well delivered session on sector risk and sector viability. In summing up the board

- Were reassured the regulator has a good grip of the issues facing the sector.
- Noted that the stability of sector is providing a challenge but should be the regulator’s priority.
- Noted that the sector remains a favourable place to invest in.
- Expected the regulator’s focus on tenants and assets remain high.

12 Review of meeting

49/10/2022 Members were all very happy with the format of the meeting, shorter papers and more discussion.

13 Any other business

50/10/2022 There were no other matters of business.

Date of next meeting: 7 November for sign-off of ARA and 22 November 2022