Challenging **Governance**

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For the avoidance of doubt the views expressed in this report are the sole responsibility of the Savills team.

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1. Why challenge governance?

Challenging times are nothing new to housing associations. The sector has adapted and survived several major changes ranging from the introduction of mixed funding, through to rent control, the impact of welfare reform and the recent severe economic downturn. Through these changes the housing association business model has endured, but to do so has involved adaptation and diversification.

Today is no different – or is it? Increasingly housing associations are expected to work as more commercial businesses. But should this suggest adoption of plc type models and greater business exposures? If so how can this be achieved without loss of core values and accountabilities?

Market forces require changes to organisational practices to reflect the operating environment, but underpinning this is the need for a governing structure that determines objectives and ensures delivery.

Sadly it is not unusual for fundamental reviews of governance to follow failure. When organisations hit the buffers, a microscope is used to review and reshape how the business is governed. The nature and pace of change is such that all organisations should periodically create the space to challenge how their governance arrangements work in practice.

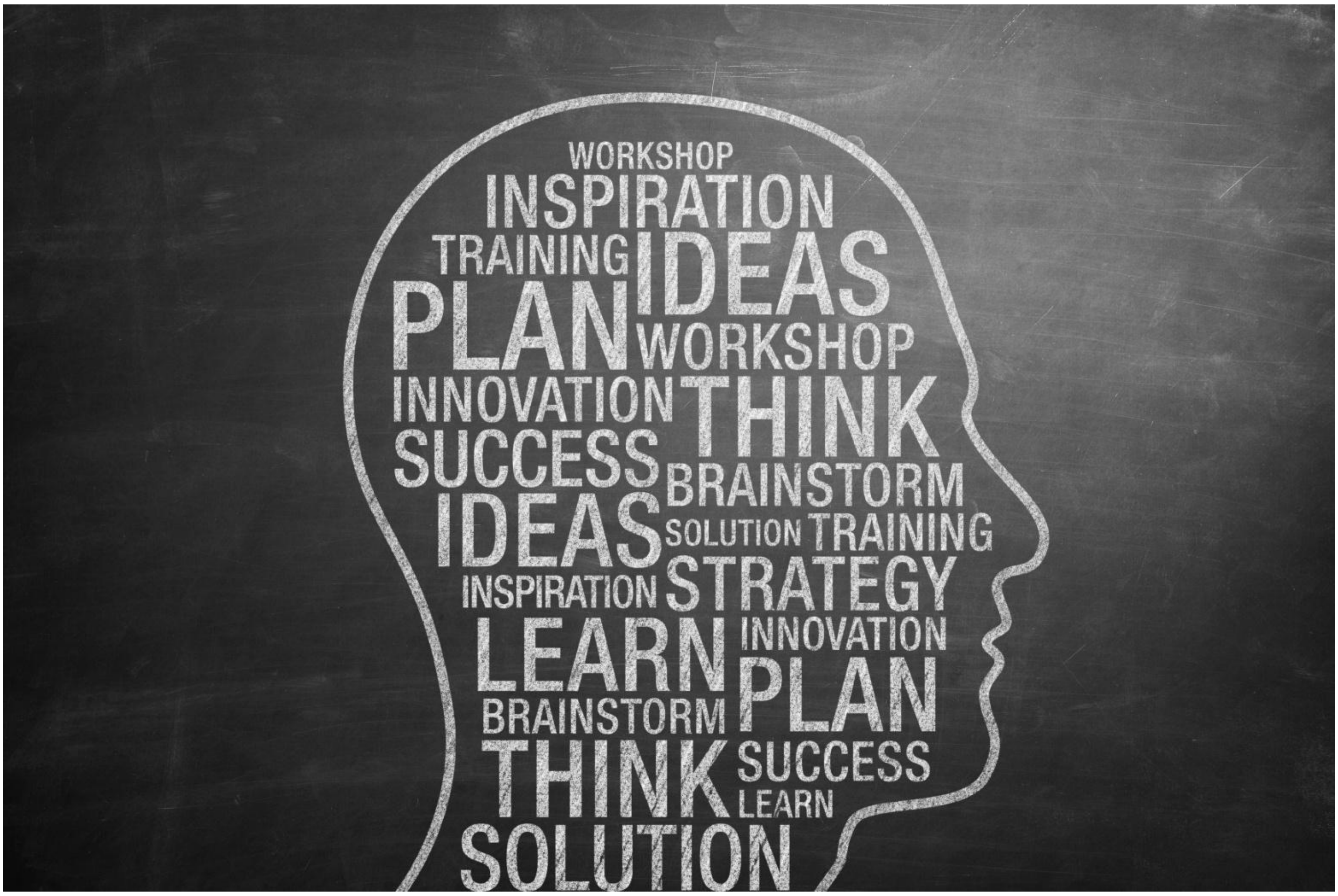
This report is written for Board members, and its key word is ‘challenge’. It considers the challenges currently faced by associations and how these affect the operating environment. It then invites you to consider the role and structure of governance in your own organisations and how this works in practice. Finally, it considers how governance can address the accountability issues faced by housing associations and their various stakeholder groups.

The report is structured so you can consider your governance as a whole or for you to dip into and out of the report, and consider any of the sections in isolation or as part of an organisational review. At the end of the report (Annex 1) is a questionnaire that can be used to help you decide which improvement areas you feel are most appropriate to your own organisation.

The information is not drawn from a full sector survey nor does it represent all the governance structures out there. It is drawn from review and interviews with a number of associations which have considered governance and are adapting their structures to meet current business needs. The report also draws on existing literature and papers on governance which provide a wealth of information for those seeking a more comprehensive analysis of governance models.

Sharing and understanding governance responses to the current operating environment can facilitate change and improvement. While each organisation has its own operating challenges, comparisons can be drawn when developing governance structures, good practice can be identified and lessons can always be learned. This report challenges the reader to ask the difficult questions and to consider if your governance arrangements makes the best of your organisation?

2. Key messages



Financial austerity measures have significantly changed the business environment. There is a view that the sector hasn't kept pace with this and needs to become more business-like, but there is also an imperative not to lose sight of the customer and the social values which have defined the sector.

Business and governance don't operate in isolation. Governance sits at the heart of a successful organisation. In the current environment all businesses need strong, skilled boards and clear, effective governance frameworks in order to thrive. Governance arrangements and structures have to be fit-for-purpose now and in the future.

Today, housing associations cover a wide range of businesses. The sector is diverging in role, scale and complexity with differing structures to reflect operating patterns. While 'less vanilla' is evident in organisational practice, the extent to which governance has changed to keep pace is less evident. Boards need to make space to appraise governance structures and models. Whilst some providers have been robust in doing this, many have yet to give the issue the same attention as their areas of operation. Corporate governance plays an important role in balancing the needs of an organisation and its stakeholders, but to do this effectively a Board needs clarity on its role and accountability and it needs to challenge itself on how well it is operating.

Within this report we have considered the role and shape of governance (which we term the DNA), along with the role of governance in addressing accountability to stakeholders. Each of these sections has given rise to good practice sound bites and key messages from practitioners as follows:

Role of Governance
Part of the Board's role is to deliver the business purpose, which will at least require knowledge at Board level of the organisation's financial capacity. There can be a perverse reward for complacent Boards and Executives of housing associations that don't seek to understand and use effectively the capacity of the business. With or without changes in an organisation's asset base and activities, there is a constant need for Boards to reflect and review. Over time, what Boards choose not to do is as important as what they choose to do. Adopting a commercial case mentality and sharpening the business acumen of Boards does not mean a loss of social purpose or value. This process is as much about the efficiency and effectiveness of the core business, as profit-making from non-core activity.
DNA of Governance
The right size for a Board and the right culture lets you hold better conversations that matter. In terms of skills – yesterday isn't tomorrow, so get ahead. Recognise the need to take action to acquire the skills necessary to operate effectively in new business areas. Everyone around today's Board table should have sufficient financial awareness to do justice to the fiduciary role. The Board needs to find agreement through difficulties and different perspectives. It's healthy to disagree - disagreement is not disrespect.

Non-Executive Board Members should be engaged and active, establishing a clear line of sight into the business – rather than passive episodic attendees.
Accountability of Boards
As temporary stewards, boards should be mindful of the legacy created through strategic decisions – are today's decisions good for the long term business? The Board has a role in stakeholder mapping and in proactive stakeholder relationship management. Much more can be made of financial statements as a tool to improve business insight and drive greater transparency and accountability. It's not only about meeting the needs of the regulator, it's about taking real ownership of the need to drive efficiency and value so that you have the resources to do what you are there for.

3. The challenging environment - the challenges currently faced and those ahead

'I've been motivated by overcoming challenge and overcoming the hurdles and obstacles that face me. There still is plenty out there to get motivated by,' Andre Agassi

The social housing sector is complex. It has a not-for-profit dimension and less profile and recognition in the wider business community than other organisations of comparable size. Stakeholders such as the government, local authorities, regulators, lenders, tenants and employees, have competing and contradictory needs, which mean interests have to be balanced. The market place is changing; Government funding now extends to unregistered bodies and the impact of welfare reform is significantly affecting revenue streams. Private finance is also much-changed, with a more complex lending environment and increasingly demanding lender expectations.

The Market Place

The traditional market place for housing associations has two dimensions – the capital market (how business is affected by asset types and values) and the revenue market (turnover through rental income). Over time both of these elements have changed.

The capital market – While the main product is that of housing provision, the type of provision is now more diverse. The introduction of sub market and market rented products alongside sale products for the owner occupier, place more emphasis on understanding local markets and growth / competition from the private sector. For developing associations, shortages of construction materials, escalating build costs and falling sales values have made some development programmes unviable. In turn this has led to relationship issues with the government, as organisations have had to consider returning allocations of development funding grant or finding additional funds from within their own already stretched resources.

The revenue market – Maintaining and managing rent collection as welfare reform takes hold is a key challenge. Housing associations cannot operate as private sector landlords and (for example) make choices based on the creditworthiness of customers. However, providers are expected to act as commercial businesses by private stakeholders and deliver on their financial promises, regardless of mitigating circumstances. Alongside this customers inevitably want more for less in difficult economic times.

Board Member challenge:
The challenges here include Board knowledge and awareness of their organisation's operating environment. Technical and financial awareness are important but so is access to understanding customer needs - how is your business performing and how is it perceived by its customers? How does the Board get underneath the Performance Report?

Private sector lending

Prior to the credit crunch high street banks and building societies were the main sources of debt finance for housing associations. Thirty-year loans were commonplace at rates as low as 20 basis points (0.2%) over libor (the rate at which banks lend to each other). This source of funding is no longer available and lenders will seek every opportunity to reprice historic debt that was lent at low rates.

To maintain investment programmes, many housing associations are now moving away from conventional borrowing and into the capital markets. Bond issues and ventures with investment funds increasingly providing financial support to the sector.

Investors and Ratings Agencies are becoming the new stakeholders for many providers. To secure such investment requires a solid financial standing and a sound reputation. Investors will look to external credit rating – provided by agencies such as Moody's or Standard & Poor's - as part of their risk assessment and pricing. In turn this will require not only a strong balance sheet and operational performance, but robust governance and a good track record in risk management.

Board Member challenge:
This is a major challenge for housing association boards. Do you have the structure and credentials that cut the mustard with private investors and institutions, and sufficient understanding of capital finance to ask the right questions and take decisions?

Regulation

In its few years of existence prior to being disbanded in April 2012, the Tenant Services Authority redefined the approach to housing regulation by introducing the concept of co-regulation. An expectation that Boards could and would 'self medicate', with the regulator only stepping in where it was necessary, reflecting a lighter-touch, risk-focused regulatory stance.

More recently, under the Homes and Communities Agency, regulation has increasingly focused on economic objectives and protection of social housing assets. The HCA summarises its approach as 'to promote supply and investment in the sector, protect the taxpayer (including in terms of value for money) and ensure providers are well-managed and financially viable'. The regulator publishes its ratings for governance (G 1-4) and viability (V 1-4), which includes checking compliance with the governance code a provider has adopted. It has a particular eye on risk management and value for money. The regulator also sets consumer standards but does not regulate these.

Board Member challenge:
Whilst many have complained that regulation was too prescriptive in the past, co-regulation places pressure on Boards to assume responsibility for performance. Has your Board recognised this – can you show you are responding to the co-regulation challenge?

Government Funding

Government support is moving away from the notion of grant funding for sub-market rented housing development, towards recoverable investment. The thinking goes, why should the government invest permanently when an investment can be recovered and recycled into future housing provision?

The traditional approach to supply of subsidised affordable housing has been through a combination of capital subsidy in the form of government grant (social housing grant) and the housing provider's own funds (reserves, including surpluses from commercial activity, or borrowing). Levels of grant have reduced in recent years, due to a focus by the HCA on increasing competition and following the introduction of the Affordable Rent supply model – where grant is lower, but providers are able to let homes at up to 80% of market rents. Over the past decade providers have seen assumed capital subsidy levels fall from 50% of the cost of a house, to 40% and now to 20%. The average grant on the first instalment of the 2015-2018 Affordable

Homes Programme announced in July 2014 was £20,538 (contrasting with social rent grant levels of around £55,000-£65,000
outside London and £100,000 inside London in the 2008-11 funding round).

In its 2014-15 Corporate Plan the HCA makes clear that it is shifting towards a more commercial model 'working at pace and at scale to boost overall housing supply and economic growth'.

Housing has had a high political profile over the past few years, but with an increased focus on house building and initiatives focused on helping people into home ownership. As part of this, the government has introduced a significant number of new investment programmes aimed at increasing the supply of new homes through development loans rather than grant funding. Housing associations can of course bid for these programmes, but they must compete against private sector providers and are still expected by the HCA to meet the required standards of financial rigour.

Board Member challenge:
Rising to the challenge of these issues requires more than sound programme monitoring and financial control. Boards must be able to set the direction of travel, giving the Executive team clear guidance on which business streams to pursue and which to leave alone. In this context does your Board deliver on both the strategic and fiduciary aspects of governance?

The Challenges of the Future

The operating environment is far from benign and further challenges will arise. Some of the known challenges requiring vigilance are set out below:

External environment – responding to new and ongoing reforms. Following the general election on 7 May, **and the CSR which will follow**, housing providers will need to consider the political horizon, including:

- New funding programmes and initiatives - considering the developing political agenda and making conscious decisions on what programmes are (and are not) compatible with the organisational objectives

- Welfare Reform - mitigating the impact of on-going welfare reform on the business, while acting in the interests of tenants. Developing strategies that create new activities to complement or sustain the current business

- Rents – can rents continue to rise? Many debt profiles and business plans assume rent increases, but with an increase in the availability of private rented accommodation and a squeeze on real earnings, the market place may dictate otherwise

- Devolution – Scotland may have voted against leaving the UK, but the issue of devolution of powers in other parts of the country is far from closed. Housing associations will need to develop new and strengthened (or distanced) relationships as devolution and the local political agenda develops. Providers will need to be mindful of the local impact of local economic partnerships and other regional policies on operational and development strategies

- Demography and consumer preferences – social landlords may still operate in something of a competition-free zone, but customer service studies show in general consumers are now more demanding of the services they receive. As mentioned above, the advent of higher Affordable Rents, allied to the growth in supply of PRS accommodation pose a threat to landlords' income. When the potential for further welfare reforms is factored in, housing associations will have to be aware of the impact on, not just their income, but the future of service delivery and the viability of their homes

Costs of borrowing - interest rates have been low and static for a number of years. Many Board Members will simply not have experienced the challenges of increased interest rates against a backdrop of a constrained revenue base. Similarly many of the current investment funds have return linked to RPI or other inflation indices and future bond pricing could be considered more volatile than interest rates.

Requirements of lenders and credit rating agencies - these parties will increasingly look to the quality of governance when making their assessments and will expect compliance with codes of conduct and governance that match those in the private sector. This will involve more disclosure on governance structures, board membership (including tenure and remuneration) and risk management. Non-disclosure cannot be an option if the present good credit ratings are to be maintained. A move towards greater disclosure is inevitable and with this the associated pressures on corporate governance.

Regulation – here housing associations must rise to the challenges of co-regulation. They must maintain the confidence of the social housing regulator, the HCA, and its strengthened Financial Viability and Governance ratings. Housing providers must also demonstrate they are achieving value for money across the business. Depending on their areas of operation, some will also need to meet the needs of The Charity Commissioner, social care and education regulators

However, the crucial point here for all housing providers is that their approach is not only about meeting the needs of the regulator. They must also take ownership of the need to drive efficiency

and value so that the resources are available to pursue the charitable and social aims housing associations exist to fulfil.

Alongside the above issues is the internal challenge presented to each organisation of supporting its governance structure. The list of expected personal and technical qualities of a Non-Executive Director is so long, precise and contradictory that no one person could fit the bill. Fortunately the Board should be a balance of appropriate skills and experiences. However, securing the right people and providing development, support and appropriate infrastructure requires dedication and is an important challenge for organisations.

4. Challenging the role of governance

'Efforts and courage are not enough without purpose and direction,' *John F. Kennedy*

The role of governance within housing associations could be described as being at an evolutionary stage. Alongside being a good corporate body, housing associations now need to consider objectives that overlap with the private sector and they need a business focus that speaks the language of private institutions as well as the HCA and other regulators.

However, evolution does not mean that organisational values and customers are forgotten – testing the viability of these is important, especially in the current climate. Co-regulation is not just about technical compliance - it's about serving the interests of all stakeholders beyond the bottom line.

'We need to secure our objectives using a business focus, with a mind towards co-regulation with the financial institutions as much as with HCA. We need to do this to remain strong, to continue with the social things and deliver for our customers,' *Non-Executive Director*

Modes of Governance

The role of a Board is multi-dimensional, setting the destination, planning the route and monitoring progress along the way. To stick with the travel analogy, there is also an environmental role, a responsibility to add value and to ensure improvement throughout the journey. These dimensions have been characterised in many ways, but a good summary lies in 'Governance as Leadership –reframing the work of non-profit boards' (Chait, Ryan, Taylor & Wiley, 2005) which defines three modes of governance.

Generative	➢ deciding the long term vision – getting under the skin ➢ being creative and setting strategic objectives ➢ upholding the values
Strategic	➢ setting and approving a corporate plan and its executive targets ➢ establishing and monitoring the risk strategy ➢ reviewing the strategy or plan and amending where necessary
Fiduciary	➢ overseeing the operational plan and budget ➢ performance review ➢ regulatory and financial compliance statements

Housing associations have different blends of these three depending on what type of organisation they are and where they have come from. However, the blend does need to be revisited periodically to check it fits a changing environment.

Standing still whilst all other evolve around you could make for a quiet life. There can be a perverse reward for complacent Boards and Executives that don't seek to understand and use effectively the capacity that the business does have. Part of the Board's role is actually to deliver the business purpose,' *Non-Executive Director*

Over time what you chose not to do is as important as what you chose to do. This constant need to reflect on change was a feature in all the organisations interviewed for the report. Though all are different, all have acknowledged the need to adapt and survive.

Perhaps the most familiar mode of Board business is that **of fiduciary –** the legal and ethical duty of trust role, which includes monitoring financial performance and operational procedure. Consideration of organisational performance against a business plan holds the Executive team to account and also informs the Board on the operating environment and how its strategies are working in practice. Performance-monitoring and assurance on compliance with professional or industry standards and regulations are important, but should sit alongside and inform forward thinking and strategic planning. Ask the question – how is what you are deciding today part of where the business wants to be in 5-10 years' time?

The **strategic** mode goes beyond the approval of budgets and a corporate plan. Boards often suggest they are asked to approve a final draft of the corporate or business plan at the end of a planning cycle and have too little involvement in the development of the organisational direction of travel. Housing providers that have reviewed governance structures and responded to the current markets have created the space for Boards to give far more attention to 5-10 year horizons. The process allows Boards to explore changing markets, understand exposures and have an active role in developing the business strategies. Similarly, in assessing the riskiness of a certain approach and strategies to mitigate this, the Board must consider the risk and understand the assumptions that underpin it**. In summary, Boards need to own strategic decisions. But to do this they need engagement in and ownership of the business plan and the ethos of the organisation.**

'The value of the Board should be in strategic debate and decisions, not knowledge sharing or knowledge demonstration by the Executives. We expect them to know their stuff, we need the time and space to evaluate and use it,' *Non-Executive Director.*

The **generative** mode is where a Board considers the wider impact of their organisation's mission and values – are they being achieved and are they still right in today's context? Space to do this is essential. Space for creative thinking and exposure to the actual business in practice (rather than through written reports) allows insight into organisational effectiveness. Such work adds value to business success through a genuine partnership with the Executive team and creates ownership by the Board of the business strategy. A Board in generative mode can act as a guardian of agreed business values. It can challenge Executives when they get taken by the latest thing or prompt them to deliver the mission if they are too averse.

Bringing these three modes together gives the capacity for a strategic and assured Board that has true ownership of the organisation and an effective partnership with its Executive. Within this it is important to distinguish between the role of the Executive and the role of the Board.

'This should be a partnership with distinct roles. The Board does not hold the pen or take responsibility for delivering the business plan and associated strategies, but it does have a critical role in giving the Executive team clear direction and holding it to account,' *Executive*

Key message:
Part of the Board's role is to deliver the business purpose, which will at least require knowledge at Board level of the organisation's financial capacity. There can be a perverse reward for complacent Boards and Executives of housing associations that don't seek to understand and use effectively the capacity of the business.

Structures

As housing association remit and operational practices have grown, the type of structures adopted to deliver objectives has diversified. A landlord's structure can be affected by its scale, its location(s), the nature of its business (e.g. care and support or commercial) and stakeholder interest or control. They can also be affected by the approach to tax efficiency and a provider's charitable status.

While there are many variations on a theme, here we define structure by three typologies: those that are **Customer and Constituency based**, those following a **Federal approach** and those that work to **Functional groupings**. Across all of these types is a need to keep it simple. Simple structures keep the business agile and responsive. They foster better working relations between the Executive and Non-Executive teams. They can also help eliminate duplication and create more space and energy for effective action.

The interviews conducted for the report considered housing associations that fell into each of the three categories. An outline of our sponsors' structures is included in Annex Two.

Customer and Constituency - Soha, Community Gateway and North Star

Federal – Longhurst Group and WM Group

Functional – Affinity Sutton, Flagship and Derwent Living

A common denominator across all was the recognition that they were on a constant 'governance journey'. Those we spoke to had reviewed and consciously chosen their governance arrangements (albeit some were part way through a change process). With or without changes in asset base and activity, all recognised the need for continual review and refinement. By looking at the governance mechanisms adopted by those with similar typologies (in and out of sector), Boards have the benefit of seeing what works well and considering within their own organisation what nettles they need to grasp.

Customer and Constituency

These organisations are local community-focused providers that typically have a governance structure drawn from its community. This can mean many resident stakeholders and/or a Board made up of agreed proportions of constituency interest (e.g. tenants, local authority, independents). Such organisations are strongly rooted and will typically operate within a defined and limited geographic area. The focus is on accountability to tenants and the local community for delivery of strategy and services. Local authority stock transfers fall into this category, though as they fulfil their transfer commitments and financial obligations they may seek to expand beyond their original locations. Some select a different governance model as they make the transition from delivering the 'Transfer Promises.'

The model does not preclude a strong business focus alongside accountability and a strong customer orientation. For example, Soha has been active for several years in driving and evidencing value for money, in securing funds from the capital markets and in developing a more diverse range of products.

Strengths include: local roots, first hand-knowledge of the local operating environment, accountability to tenants, local stakeholder involvement and targeted activity beyond the landlord role. There is an in-built link to customer preferences, which can reduce the dependence on associated resident groups. The potential is strong for the engagement and empowerment of residents at a point of transformational change, or in challenged communities. This can help to raise aspirations, drive the regeneration of an area, strengthen a local economy and improve opportunities for residents. Landlords with this approach to governance tend to act in sustained, strong, strategic partnerships with public and private partners in a defined geography

Potential areas of exposure include: governing an organisation which is growing in size and complexity, or simply operating the business in a more challenging environment. Whilst we did not identify exposures in those case study associations interviewed as part of this research, wider experience suggests constituency based organisations may have to place an over-reliance on the business skills of independent members. Maintaining board awareness / management of risks and managing stakeholder expectations may be more challenging than with non-constituency based Boards. Constituency based organisations may need to question whether the Board as a whole and as individual members have the business skills necessary to carry out their role effectively. Similarly if there are constituency groups, how does this contribute or detract from consensus decision making? A further challenge can be the adaptation of the governance structure or constituency base if the association spreads substantially across a wider geography.

Soha and Community Gateway have consciously chosen their governance models as the best way to deliver their business purpose. Soha describes itself as a locally accountable organisation for which accountability to tenants matters. It has a fundamental belief that tenants are more than capable of playing an important role on the Board. Given this ethos both Soha and Community Gateway invest in building capacity within their communities for potential Board Members. They use capacity training programmes to provide this support and overcome potential areas of exposure.

'We had good training before applying for Board. What hit it home with me was the statement that we should consider carefully ***the role of board to ensure we are ready for the responsibilities and that we can fulfil the role to its fullest, otherwise we should let someone else do the role…… No other Board member has our experience, knowledge and insight.'*** *Tenant NED*

Federal

The shape of the English housing sector is atypical for a mature market. There are 1,700 organisations of which 1,500 are active house builders, yet only 206 of these have more than 2,000 homes. We have seen three waves of consolidation via mergers in the past two decades, with the early years of activity predominantly creating federal group structures. Drivers of the federal model were the retention of an established, local identity, incorporating local governance and operations as well as some of the unique characteristics of the organisation such as BME or older persons. The aim was to achieve the best of both worlds, by combining a local focus with potential economies of scale and a perceived step-change in the product and service offer.

Consolidation into a federal structure typically reconfigures group members into separate subsidiary entities focused on geographic areas of operation with a parent Board retaining oversight and responsibility for the group as a whole. Corporate decisions such as finance, risk and treasury management usually remain with the parent Board, along with approval of the group-wide corporate plan. Local delivery and performance against agreed operational plans and targets is the domain of the respective group members and their Boards.

Alongside the landlord entities, federal structures have also grown to accommodate the required financial structures, such as treasury vehicles or to comply with the requirements of charitable status and protect social assets through the separation of functional business streams, such as outright sale, market rent.

***Strengths include*:** a parent body able to take a macro perspective and be influential at a national or regional level. The various member bodies of the group enjoy a degree of autonomy and are able to adapt to local circumstances as their knowledge and networks dictate. There is more potential for senior-level contact with customers and other key stakeholders and the potential for high levels of commitment and motivation for local staff and boards. A larger management and governance structure also presents an opportunity to target specific skill sets to parent and group boards, while also giving scope for rationalisation and streamlined decision making. The diversity and opportunities within a federal structure can also be attractive to new Group members.

Potential areas of exposure include: reaching a consensus on the pivot point of the parent role e.g. risk, development, treasury and assets. Similarly there can be difficulty getting buy-in to amalgamation between different group entities or moving to a simplified structure which can often mean new geographic or business stream boundaries. Relationship management between subsidiary and parent boards is a key issue here along with managing expectations of the remit of subsidiaries. Federals need to make co-terminus governance (models such as overlapping boards and aligned common purpose boards) work without adding unnecessarily to the efficiency of the organisation.

In discussions, organisations with a federal structure recognised that if the structure was left untouched, the organisation would soon reflect more historic than future needs.

'We need to be relentlessly pragmatic about the structure, reviewing it routinely to ensure there is a business case for the model, that the balance of accountability is correct and that we have clarity and a robust approach to risk flow across the whole,' *Non-Executive Director*

Those interviewed shared a recognition that as their organisations grow there needed to be a periodic review of structure, but that a pragmatic balance had to be struck between history and a brave new world. All recognised that this presented opportunities for streamlining and rationalisation, but that this had to have an 'eyes wide open' approach for the whole group. Ultimately the Group Board needed control and had to set and own the growth strategy.

Both WM Group and Longhurst believe that local boards do understand their locality and can connect with local stakeholders in a better way than through a single structure (e.g. inner city Birmingham is very different to rural Herefordshire). But there is also a need for a business-focused parent board able to step back and look across the group at corporate matters. Both agree that there is a need to test the balance and the extent to which the structure adds value, minimises bureaucracy and effectively governs the business. Clarity between the role of parent and group member was also stressed – this reflects a strong desire to avoid the politics of negotiating around Boards.

WM Group and Longhurst have successfully brought new Group members into their federal structure coherently and without adding to the organisational 'washing line'. This has been achieved through amalgamation with an existing subsidiary and bringing Boards and Executive teams together to release capacity for reinvestment in homes and services and increase local impact. Futures and North Star see group-level co-terminus boards as the route to streamlined governance, whilst retaining strong local connectivity.

Functional

Rather than group members that are defined by geography, functional Group structures bring together the core business of a landlord with other commercial business streams. The provision of social housing is viewed as a single business stream, alongside other businesses which may provide complementary or associated activities (e.g. house builder, student housing, health care, social enterprise). Functional boards tend to have a smaller number of members with a clearly defined Board remit. Functional structures draw more comparison to the private sector, but retain the core social landlord entity at the heart of the group, using profits generated from other group members to support core objectives.

Strengths include: Boards have specific skill sets which can successfully support diversification and risk management and, as a result, Board recruitment can be more attractive to industry specialists.

There can be clarity in the structure and the mission of individual businesses as well as an ability to create (and monitor) self-financing business streams to support core social landlord activities.

Potential areas of exposure include: The potential disconnect for other business streams from the core social landlord business. Does the Commercial Board have sufficient knowledge and understanding of the core business? There is also a real risk of a perceived loss of stakeholder influence among partner local authorities and residents. Boards and Executives must be wary of the organisation taking its eye from its core social housing business, due to the call on organisational resources to support non-core activities (there is a clear potential opportunity cost here). Finally there is a risk of a loss of identity for a landlord and the possibility of 'mission creep', where successful new business streams take over as core business for an organisation.

The extent to which the commercial dimension influences this approach is one that fuels external perceptions and leads to questions of the ethos of an organisation. The answer has to lie in an understanding of why surpluses are being generated.

Key message:
With or without changes in an organisation's asset base and activities, there is a constant need for Boards to reflect and review. Over time, what Boards choose not to do is as important as what they choose to do.

Commercial – v – Social?

Whichever approach is adopted it has to suit the individual needs of the organisation. Recognition of the need to adapt to the current environment and prepare for challenges ahead is a basic survival instinct. In the current climate, this is moving towards more a more commercial approach to business. However, some residents and other stakeholders as well as the press and sections of the general public would argue that there is a degree of tension around the concept of 'commercial v social'. However, interviews we have conducted suggest this aspect is overplayed.

'Choice and the best use of resources have always been an issue for us. There will always be a small proportion of tenants or local authorities that consume a greater proportion of our resources. Commercial activities can be used to supplement rather than detract from core housing,' *Executive*

Adopting a commercial -case mentality and sharpening the business acumen of Boards should not mean a loss of social purpose or values. In summary: it's not a pull in different directions and there is a difference between thinking and activity.

Thinking – commercial thinking is as much about efficiency and effectiveness of the core business as profit-making from non-core activities. Including commercial acumen at board provides a balance of skills and challenge to the delivery of the core landlord business, as well as informing risk assessment for new business streams. It also helps the integration of affordable housing into a wider business world. However, to accommodate this does need more than just one or two new Board appointments. Clear communication of context and mission is needed, along with the specific role of the Board in terms of decision-making. Once recruited, new Board Members will need to follow a business induction process and receive on-going support ,rather than be expected to make a journey of discovery.

Activity - the tension on many Boards at present is really around decisions to invest in genuinely commercial activities. Here the issue is not one of ‘principles’ but one of returns, versus other choices. If activities are generating returns that can be used elsewhere in the business to build more sub-market rented homes, then the issue becomes one of managing the extent of non-core activity to ensure it does not start to challenge or distract from the prime purpose of the organisation. If this were to happen, the Board would need to revisit its mission statement, role and purpose. Derwent Living recognised the potential for just such tension when considering its governance structure, a threshold level of 40% for commercial activity has been consciously set by the parent Board. In considering and approving new ventures, the Board are reminded of the overall Group exposure to diverse activities to allow the Board to keep a clear focus on the volume of work undertaken by the commercial entity and the value of returns this makes back to the core.

Key message:

Adopting a commercial case mentality and sharpening the business acumen of Boards does not mean a loss of social purpose or value. This process is as much about the efficiency and effectiveness of the core business, as profit-making from non-core activity.

While there are many variations on the theme, leadership, supervision and ownership feature widely in governance language on the role of a Board. To make the best of itself and its organisation, a Board needs clarity on its role and purpose, and it needs a shared view of the working arrangement with its executive. If an organisation does not have these things it will inevitably under-perform and quickly fall foul of its stakeholders, regulators and investors.

Summary of Key messages:

Part of the Board’s role is to deliver the business purpose, which will at least require knowledge at Board level of the organisation’s financial capacity. There can be a perverse reward for complacent Boards and Executives of housing associations that don’t seek to understand and use effectively the capacity of the business.

With or without changes in an organisation’s asset base and activities, there is a constant need for Boards to reflect and review. Over time, what Boards choose not to do is as important as what they choose to do.

Adopting a commercial case mentality and sharpening the business acumen of Boards does not mean a loss of social purpose or value. This process is as much about the efficiency and effectiveness of the core business, as profit-making from non-core activity.

5. Challenging the DNA of the Board

'Be a yardstick of quality. Some people aren't used to an environment where excellence is expected,' Steve Jobs, former *CEO, Apple*

In a more complex operating environment and to fulfil the roles outlined in the preceding section, some organisations have recognised the need for fresh thinking around the number, size and diversity of their Boards and committees. The key issues are outlined below.

'As a sector we have moved from the comfort blanket to the big wide world. We need to think hard about governance now and make enough space for it as an issue. Is the sector getting it right and tackling issues fast enough? I have a nagging doubt,' *Non-Executive Director*

Board Size

There are divergent thoughts on Board size, ranging from those who had opted for smaller more business-orientated Boards (typically 7-8) to those who have retained larger representative Boards (typically 12-16). Whilst most of the organisations interviewed for the report have embraced smaller boards, all agreed there was no magic number - a simple governance structure and the appropriate number of people around the Board table were said to be important in optimising performance.

Exponents of smaller Boards described the benefits as 'better thinking and greater business agility' or 'the organisation doing better business, rather than doing the business better'. In a small Board of 7-8 there can be no room for passengers because a lack of preparation or insightful contribution will quickly become apparent. Smaller Boards also require more active members, not least to service the required Board committees and to gain an informed understanding of the business.

Flagship offers one example of an organisation that has made a rapid transition from the federal structure to a streamlined functional model with a small Board. The association moved from four registered provider entities and four Boards comprising 50 Board members in 2011, to its present streamlined structure led by a single Group Board of eight (five Non-Executives and three Executives) as of April 2105. Its rationale was:

'To create strong Board leadership – dynamic enough for our future business aspirations and operating environment – we made tough decisions on Board size and make up. Our approach had become outdated. It was cumbersome, ineffective, costly and added no real value,' *Executive*

However, other organisations expressed concerns that small Boards are simply the latest fashion, aping the private sector and that organisations risk lurching from one set of issues to another. Particularly for the community-based associations there was a concern that a sufficient range of diverse voices are required at the Board table in order to guard against 'group thinking', create a good conversation and protect the organisation's legacy.

'We have reviewed our governance structure a number of times since transfer. We believe tenants must be at the top table. It helps us stay grounded in reality. We don't want to ape the private sector on governance. We want to balance great business practice with great accountability to our main stakeholders, who are our tenants.' *CEO*

Affinity Sutton illustrates a 'form and function' approach, having evolved its structure to bring together its historic subsidiaries. It has a strategic Group Board of eleven comprised of eight Non-Executives and three Executives. The landlord subsidiary entity, Affinity Sutton Homes, has a Board comprised of ten members: four residents, the Chair (an Affinity Sutton Group Non Executive) four Non-Executives and one Executive .

'Our primary concern has been to have the right mix of skills on the Board to deliver our core mission. We've been able to do that while reducing the number of Non-Executive Directors, as we have simplified the overall governance structure,' *Executive*

Whilst there are divergent thoughts on the significance of Board size, we noted that some interviewees felt that larger Boards could lead to less participation and that opportunity to exert influence, or contribute good ideas could be more limited. Where perceived, this sort of disconnection can lead to a lack of effective preparation by a Board Member and reduce their persistence in making healthy challenges.

The average size of Boards in the housing sector is slowly decreasing but remains higher than most experts recommend. Grant Thornton's Housing Governance Review 2014 [source – Steering the way to Excellence in Governance – Grant Thornton 2014] identifies that the average number of Board members in housing associations is 11.4. It also quotes research showing that between seven and 10 members is the best size for effective Board meetings A Board should be 'large enough to get the Board's work done, yet small enough to work as a single team to communicate, deliberate, and function as a single body'. [source - Sumption & Wyland]

A key benefit emphasised in interviews by those with smaller Boards was the ability to hold 'better conversations that matter'. This we feel is the important question. When assessing their approach to governance, organisations must ask whether truly productive, strategic discussion and strong accountability can occur in a meeting typically attended by 12 Non-Executives and 4-6 of the Executive and wider leadership team. Does the size of your Board and its meetings help or hinder truly productive, strategic discussion and strong accountability?

Key message:
The right size for a Board and the right culture lets you hold better conversations that matter.

Constituency-based representation

There are circumstances in which constituency representation matters, where arrangements are designed to gather together as much stakeholder support as possible into the governing body. Typically we see these in the early years of stock transfer housing associations and where successful physical or socio economic regeneration depends on an engaged and empowered community.

Concerns were expressed both in our interviews and in a wider discussion group about the issues for some historic stock transfer landlords with constituency-based Board. Is it appropriate that, after delivery of the promises made to tenants at the time of the stock transfer, in the current operating environment an association could be in a position where two-thirds of its Board must be nominated by the local authority and selected from the customer base? Could this place too much reliance on the skills of a small number of independent individuals? In the interviews we conducted, the view was clearly expressed that organisations benefit if they have control over the skills required to direct and oversee their business. While nominations may deliver the skills required, this cannot be ensured. Add to this the potential annual turnover of a cohort of nominees and effective Board performance is at real risk.

'A Board's purpose is to govern, not to comply. Non-Executives should not have to be humoured and managed - we need them to add value,' *Non-Executive Director*

Given their community base it is not surprising that Soha and Community Gateway each reserve 4-5 places for tenants within their respective Boards of 12 and 11 people. They invest in building the capacity of engaged tenants to ensure they can be effective Board Members. Each organisation is clear that Board places are not about representation and that the requirement for governance skills is paramount - this includes those with insights into the service. Community Gateway has more than 4,000 tenant shareholders and sees this, rather than the Board composition, as delivering vital accountability for delivery of its organisation's mission.

A survey in 2013 undertaken by the National Housing Federation for its Company Secretaries Group, identified significant change in the governance model of stock transfer housing associations. There are already examples in the housing sector of how change may be negotiated, with more appropriate accountable partnership arrangements retaining strong, representative connections with local communities.

Board Member skills and competencies

Few would disagree that Non-Executive Board Members must possess good judgement and be able to engage constructively in meaningful debate. In interviews we found consensus that the best Board Members are active and engaged, sharing their skills to build overall leadership capacity rather than simply demonstrating their knowledge. Good Board Members can get their point across effectively and influence others. They are outward-looking, open to feedback and learning and take responsibility for their own effectiveness. These attributes are seen as fundamental to good corporate governance.

As a minimum to fulfil their fiduciary duties properly, Non-Executives must be expected to possess sufficient skill and competency to form an independent opinion and follow through any areas of concern. This includes an opinion on the quality of financial reporting and key financial metrics, as well as on managerial performance. Failures in the sector, such as at Cosmopolitan Housing Group, show us that what you don't know **can** hurt the organisation. There are doubts that, across the sector, all Non-Executives could pass this suggested minimum test, although each Board contains at least some Members with an understanding of financial issues and on whom there may be an over reliance.

As housing associations are significant businesses, what has been good enough in the past at Board level is unlikely to be good enough for the future. This is not to advocate that all Non-Executives must have financial backgrounds, yet a level of financial literacy in each Non-Executive is a pre-requisite in the current climate, even for those organisations with traditional business models.

*'**Once an organisation has accessed the capital markets there is an inevitable tilt towards understanding the numbers, the operation of the money markets and views of the ratings agencies. This is an inevitable driver, reinforced by the focus of the housing regulator on economic issues. Despite this, we also need to continue to find ways to effectively hear the voice of our customers,**' Non-Executive Director*

Beyond meeting the basic fiduciary requirement, the organisations interviewed do design and operate skill and competency matrices for Board Members that suit their particular business needs. Our sponsor and case study organisations recognised the need to be proactive and acquire skills in new business areas such as outright housing sales, market rental, care and support and social enterprises. This assessment of the capabilities of Board Members and any recruitment should occur at the business planning stage and certainly well before new activities become a significant business stream in the organisation. The housing regulator has suggested it does not always see evidence in housing associations of this degree of foresight.

It is important to consider what skills, knowledge and experience a Board needs to lead and direct the organisation towards its vision and business aims over the next 3-5 years. The required skills of the Board must be aligned to an organisation's business plans and talent management within the Board needs to be linked to a landlord's business strategy to be effective. Most of the organisations interviewed had an agreed and customised skills matrix to define their organisational needs.

As the pace of change in the businesses of housing associations increases, good governance practice is to review the Board Member skill matrix regularly and to fully align the skills audit, recruitment, appraisal, learning and development and succession plan processes. Robust succession risk assessment and succession planning is not always in place in the sector. This would track critical dates, skill and competency levels and the actions required of Executive teams and Board Members as a result. Alongside annual skills review / discussion as part of annual appraisal, there is some support among our interviewees for a skills review and potential market knowledge test for individual Non-Executives as part of any decision to extend their term of service.

Key message:
In terms of skills – yesterday isn't tomorrow, so get ahead. Recognise the need to take action to acquire the skills necessary to operate effectively in new business areas. Everyone around today's Board table should have sufficient financial awareness to do justice to the fiduciary role.

Values, recruitment and diversity

Our interviewees reported positive experience in attracting high-quality business skills to their Boards. The majority of those organisations interviewed do remunerate their Non Executives. There were however some who did not remunerate and felt that there was no need to introduce payment.

A lack of Board remuneration does not impede Grand Union's ability to attract good candidates. Sourcing recruits from commercial companies did not appear to pose issues around the difference in social ethos for housing associations. In fact most such recruits were said to welcome the opportunity to have a social purpose, while directing and helping to strengthen an interesting organisation. This experience is not universal and the values of an organisation should be explicit in the recruitment process. Where decisions not to remunerate are in place, associations should revisit the arguments from time to time to ensure they are still relative to the business and its needs.

In addition to their skills, the behaviours and cultural fit of prospective Board Members must be explored during the selection process and further during their induction. Small-Medium Enterprises and start-up businesses were cited as a good source for an entrepreneurial outlook combined with a strategic mindset. One interviewee commented: 'These individuals tend to have less tunnel vision than some specialists in FTSE companies, for instance.' The wider voluntary and statutory sectors, where people have learnt to do more with less, are also a good source of potential Board recruits.

Like all teams, Boards operate most effectively when their skilled members bring different knowledge, philosophies, backgrounds, age, gender, ethnicity and experiences to the table. This diversity helps the Board meet governance responsibilities and contributes to the dynamics, breadth of insight and creative energy within the group of people. Acquiring and maintaining the right mix of Board members is a challenging job for Executives and Boards, especially where the Board is small.

*'**Diversity of thinking is key, is the acid test not whether the Board is looking good, but whether it is being good?'** Non-Executive Director*

Boards are at various stages of evolution in their approach to recruitment. On the whole the formal process, including candidate search, appears to be most common. Affinity Sutton, WM Housing Group and Trident stressed the importance of candidate search in securing the required skills and avoiding the traditional 'male, pale and frail' Board profile. Given the importance of the role, some interviewees believe the rigour of Non-Executive recruitment must and will alter further, moving closer towards that of Executive recruitment. A professional and thorough approach was recommended by all interviewees.

There is a further learning point around recruitment, skills and the role of the Group Board within federal structures. Given the role and expectations of lenders and the housing regulator, federal groups at parent level should operate with the skills for their scale and complexity, rather than on the basis of ensuring significant representation by subsidiary Group members. Where representation is anticipated either within the Group Board, or within its committees, it should be clear that the subsidiary Board includes some members with the skills to participate effectively at Group Board-level. At the same time recruits to subsidiaries will need clear information about the focus of that Board – if treasury, development and asset management roles are delegated upwards - in order that they do not experience frustration at the limitations of their prime Board remit.

Working relationships

Reports about effective governance tend to begin with the structures, then the clarity of the Board's terms of reference and its size, skills and composition. These are genuinely important factors, but governance culture and a healthy dynamic between the Executive team and their Non-Executive colleagues are seen as key determinants of success in practice.

The relationship between Non-Executives and Executives can be that of the 'cotton wool Board' in which only good news and reassurance rather than assurance is offered or encouraged. While meetings may be shorter and the Board atmosphere might be amenable, in the current less benign operating environment the business may be placed at risk through a lack of robust debate and, where necessary, challenge. Conversely a confident Board is able to work out the optimum balance between challenge and support of the Executive. This relationship also creates a Board environment for greater peer-to-peer solutions, focused debate and robust decision-making.

In Boards where there is a mature relationship, Executives are willing to be appropriately open and honest, sharing both the successes and also the strategic, or critical performance issues facing the organisation. It is important to discuss and work at relationships to create a Board forum where people can express their views and disagree while still respecting each other and the forum itself.

'***The Board needs to find agreement through difficulties and different perspectives. That is what good teams do. We have learnt that it is okay to disagree - disagreement is not disrespect. We are much stronger now at disagreeing and, albeit counter-intuitive, this offers much better governance and Board leadership,'*** *Executive*

Some interviewees characterised the mature relationship as Non-Executives and Executives taking more responsibility for positioning the business together. This was viewed not as aping the private sector - as the role of Boards in that sector is very different - but being about expecting genuinely independent views and well-informed contributions from all Board directors.

'***We seek 70% alignment and the creativity comes from the balance. We work for a culture of strong challenge, but never one of blame,'*** *Non-Executive Director and CEO*

Non-Executives did not feel restrained in Board discussion of difficult or sensitive topics:

'If there are unchallenged areas then, de facto, there will be waste.'

'If we are appointed to perform a role then we can't walk on eggshells. This is a real business with real money and real homes – there are consequences of just being 'nice' in terms of the legacy of the organisation.'

Key message:
The Board needs to find agreement through difficulties and different perspectives. It's healthy to disagree - disagreement is not disrespect.

A place for Executives on the Board?

Most of those interviewed supported Executive membership of the Board. However, views are polarised, with some organisations stressing that Boards should comprise only Non-Executives in order that there is absolute separation from the role of the management team and clarity about where accountabilities lie. Interviewees did agree that Executives should be members of any commercial subsidiary Board. If this is the case does it question the rationale for a solely Non Executives within the Board of the core business?

In practice, greater impact on the culture of the Board is perceived by most interviewees when Executive membership extends beyond the Chief Executive. Flagship is a clear advocate of the balance between Non-Executive and Executive membership of its Board. It sees this as critical in 'upping the game' and building a feeling that everyone around the Board table is responsible for the long-term well-being of the association

'It is difficult to articulate fully the changed dynamic, but our changes have lifted the quality of Board meetings to another level. Our Board team has a shared purpose and clarity of direction that we never had before. We have a level of honesty, debate and commitment that was not there,' *Executive*

The inclusion of Executives can be seen as a proper reflection of the leadership partnership, as a means of moving functional Executives towards corporate thinking and of an appropriate and equal fiduciary duty, given Executives' in-depth knowledge of the business. One important message is not to underestimate the effort required for a successful transition when Executives become Board members. Making the rationale for and the expectations of such change explicit will help the Executives and the Non-Executives to prepare for successful delivery from the outset. This may include coaching for some Executives, or the senior management team, to build capacity for effective engagement in a new environment.

Membership of a Board gives the Executive the same fiduciary duty to the organisation as the Non-Executive Directors. Perhaps one positive aspect of more Executives joining Boards might be a greater responsibility for organisations to ensure a Board that is appropriately skilled and challenging – even where that may make life harder for the Executive team.

Key message:
Non-Executive Board Members should be engaged and active, establishing a clear line of sight into the business – rather than episodic passive attendance

Roles of Senior Non-Executives

Common features of best practice, irrespective of local context or governance structure, include the role of the Chair being pivotal to setting the right tone for the Board, managing behaviour, upholding the vision and values of an organisation and positioning the strategic debate.

Some housing associations interviewed have noted the importance of the relationships held between Non-Executives and Executives and the link here to wider key stakeholder relationships. As a result they have created the Senior Independent Director role. Often this seems to be played implicitly or explicitly by the Vice Chair or the Chair of Audit. On the basis of 'not applying the sun tan cream after you have been burnt' the role is intended to act as a support to the Chair. It is to help avoid potential dominance of the Board by the Chair and Chief Executive, ensuring a balance in the quality of internal and external stakeholder relationships and, in so-doing, increasing the visibility of the Board.

However, not all interviewees support this role. Derwent Living has considered and rejected it on the basis that the Chair, together with three Committee Chairs and in partnership with the CEO, maintains a healthy Board dynamic. The key point is that all Non-Executives have a role to play in ensuring they operate effectively and consider the culture and practices that will best underpin that success.

The role for Non-Executives beyond the Boardroom

Most of the interviewees gave examples of Non-Executives moving from episodic attendance at Board meetings, to some form of engagement with the business. The view was that a relationship of trust and confidence is not fully built within Board meetings and that Non-Executives need to understand the business in action to effectively govern. Examples of this activity include:

- Longhurst – a group of Non-Executives leading a root and branch review of Board structures, culture, cost and performance
- Affinity Sutton – Non-Executive members all have committee roles as well as their main Board role. This helps them to develop an informed view of the organisation and its complexities
- WM Housing Group – Board Member engagement alongside Executives in the Journey to Excellence (J2E) service transformation project
- Soha – Non-Executives holding specific portfolios which are mirrored within the co-regulatory structure
- Flagship – Non-Executive coaching responsibilities, support the system of audit reviews, leading on 'blue sky-thinking' and strategy papers, having a specific portfolio of networking and relationships to develop and nurture

Most Non-Executives in our interviews stressed their need for clear lines of sight into the business, for triangulation and also so they could work out how to maximise their contribution to the success of the business, without stepping into the Executive role.

Some Non-Executives advocated taking responsibility for their own learning - for example having read key reports such as the Lyons Housing Review themselves before attending a Board meeting. In this way the Board can focus on strategic debate about the real issues, rather than knowledge transfer from the Executive. It can also prevent the Board being presented with completed papers that are simply seeking the Board's rubber stamp. This move towards the more generative Board Member role may be the exception rather than a sector norm.

'If Non-Executives are expected to debate robustly with Executives who know what they are talking about and are expected to be fully engaged in Board discussion, Non-Executives need to understand the business, be well- prepared, up to date on risks and challenges, articulate well and present a compelling case. Equally Executives need to think corporately and strategically,'
Non-Executive Director

The opportunity for Non-Executives to perform in this way is also aligned to organisational performance. If there are fires to fight then a more grounded approach, rather than 'star gazing', will be required.

Whether or not interviewees agreed with Non-Executives getting more actively involved with the business, there was clear consensus that Boards should not be passive. They should work effectively with Executives in an engaged and collaborative style. This also involved knowing when to step back and leave the Executive to just get on with delivering the required outcomes.

The role of the Company Secretary

The study identified potential to make more use of the Company Secretary role, which goes beyond administration to proactively support the Board planning process. A pro-active Company Secretary can act as a catalyst for continuous improvement by being an expert resource for the Board. They can go beyond the administration of the Board and governance business, to ensure the cycle of governance provides space for meaningful engagement and interaction by the Board with the wider business and stakeholders. The role of Company Secretary can also act as a point of triangulation to ensure that appropriate matters arising from Internal Audit, risk or other sub / specialist committees are reported to Boards.

'Housing association Boards wouldn't think it unusual to take expert advice in considering a new project or financing arrangement, yet many would not take such expert advice on governance matters from a Company Secretary. This seems odd, given the substantial responsibilities placed on Board members. Investing in an expert resource would seem entirely consistent with a co-regulatory approach that holds Boards responsible for compliance,' *Executive*

Tools to do the job – using technology

A number of landlords have put considerable effort into supporting Board Member engagement and insight through the use of IT and Board web portals. Board portals provide space for information exchange. Greater use of virtual face-to-face webinar software creates opportunities for Board Members to participate in key discussions and engage with staff in addition to formal Board meetings. Some have moved to paperless meetings, with many using only pre-loaded tablets at Board meetings. The move to paperless governance can encourage and facilitate the expectation of higher levels of preparedness by Non-Executives and support two-way contributions and information exchange.

Great expectations?

Given the more demanding climate, the responsibilities and the call on time, is the sector realistic in its expectations of Non-Executives? Encouragingly, interviewees report that they are able to continue to source good candidates - in fact some organisations have seen a sharp rise in the quality of Board Member applicants. Perhaps a more challenging environment carries greater appeal for potential housing association Non-Executives.

The challenges reported in this area were more practical in nature. They centred around the amount of time required from Non-Executives, even in smaller Boards. There is also the likelihood that professionals in busy careers may not live or work locally and therefore there is an increased reliance on technology to support communication.

As noted above, while remuneration is not a barrier to recruitment, it is seen as being helpful in raising expectations of engagement and performance, as reflected in a deed of service agreement. At this point there is little appetite among our interviewees, even if there were a business case, for raising Non-Executive remuneration levels above the sector norm - at least until the broader narrative on the extent to which housing associations provide value for money has been addressed.

Summary of Key messages:
The right size for a Board and the right culture lets you hold better conversations that matter. In terms of skills – yesterday isn't tomorrow, so get ahead. Recognise the need to take action to acquire the skills necessary to operate effectively in new business areas. Everyone around today's Board table should have sufficient financial awareness to do justice to the fiduciary role. The Board needs to find agreement through difficulties and different perspectives. It's healthy to disagree - disagreement is not disrespect. Non-Executive Board Members should be engaged and active, establishing a clear line of sight into the business – rather than episodic passive attendance

6. Challenging Board accountability and transparency

'Accountability breeds response – ability,' *Stephen Covey, US businessman and acclaimed author*

Earlier we noted the importance of effective corporate governance in balancing the needs of an organisation and its stakeholders. While some Boards regularly and consistently review their operational effectiveness, many have yet to give the same attention to governance and how they answer to their stakeholders. The HCA Regulatory Framework advises that the main accountability of RPs should be to their stakeholders and particularly tenants. In this section we explore accountability and transparency, including matters of Board disclosure and compliance with the relevant governance code.

Accountability and ownership

As housing associations become more complex businesses, Boards need to consider how to respond to the issues of ownership and accountability. Housing associations continue to be criticised for a perceived lack of accountability in the absence of more market-oriented or overtly democratic mechanisms. While the reality of governance in the housing sector challenges this perception, with our interviewees highlighting the efforts made to ensure a strong stakeholder voice on Boards, there is a need for a more convincing narrative, which responds to valid challenges from key stakeholders.

'(PLC) shareholders don't own the organisation either. The housing association world could learn from this by knowing when to (and not) let the Executive just get on. It is not the Board that is 'in charge' - it is a genuine partnership if the business is to succeed. Boards should be very clearly about strategy and high-level decision making,' *Non-Executive*

This study has identified considerable support for smaller Boards, more simple structures and increased commercial skills as a route to achieving more. There is a counter view that this is a current fashion that risks the values and legacy of housing associations. Some interviewees felt that having strong Boards, with effective communication mechanisms to stakeholders, was the way forward. Others said customers and key stakeholders have to be seen as a proxy for shareholder interests, if the Board is to avoid an accountability vacuum. Overall, there was a strong view that Boards must 'own' strategic decisions through ownership of the business plan.

	Customer/Constituency	**Federal**	**Functional**
Accountability	A strong emphasis on customer and key stakeholders as a proxy for shareholder interests. The landlord is highly visible in its locality to key stakeholders. The Board membership demonstrates local linkages	Local Boards connect the wider business activity and values to a locality and relevant stakeholders. Local Board representation on the Group Board links locality to strategy and business decisions	A clear partnership between the Board and the Executive team in ownership of strategic and business decisions. Accountability is demonstrated through effective dialogue with stakeholders
Ownership	Mutuals/co-operatives – membership feeds up into strategy and business plans. From a regulatory perspective, accountability and ownership of decisions rests with the Board	The Group Board owns strategy and business decisions	The Board owns the strategy and business plan

Accountability to tenants

Accountability to tenants will always be a lively discussion – they are the organisations' customers and are at the heart of the business. How customers inform and influence the business reflects the role and structure of the organisation. Whether focused on service delivery and improvement, or working with residents to influencing the business strategy, all organisations we interviewed cited better use of customer insight and accountability to tenants as an important business driver. Accountability to tenants is not just about the social values of the business - it's also about working with the consumer market. We heard a variety of approaches in this area, including customer profiling and seeking 'moments of truth' to enhance the relationship with individual tenants, to the more recognisable resident scrutiny or resident council approaches. All were found to inform and enhance decision making.

Flagship has taken the role of its consumer group beyond service provision. It replaced its previous customer Board with a Customer Operations Group (COG). This has a membership of six customers and four Operating Directors. The group meet quarterly to look at services and twice yearly they meet with the Board on strategic engagement - to review the budget, progress against the business plan and strategy. COG members also have an input to an annual corporate planning event. The Chair of COG meets with Chair of the Board and the CEO periodically for constructive debate. Reflecting the organisation's expectations, Flagship offers modest remuneration to COG members, where customers are also shareholders this may not be an option.

Accountability to regulators

There was a clear consensus from organisations we interviewed on the need to improve accountability. In particular they recognised the need to respond to the challenge from policy makers and the housing regulator regarding the value for money represented by landlords. One interviewee commented: 'The sector has substantial wealth and an unconvincing value for money narrative'. Large pay-offs for departing Executives at some landlords have fuelled the perception of a lack of accountability and damaged the credibility of the sector. Reputation is always an important business consideration, but in today's climate of government funding cuts and pay constraints, what feels like a business decision can quickly attract unwanted public attention. Interviewees expressed a range of views on the role of regulation. There was a consensus that, as a minimum, the relationship between housing providers and the regulator must be managed and care taken to understand the regulator's objectives. Some see the current regulatory standards, where a greater focus has been placed on the role of Board Members in ensuring the viability of their organisation, as a useful focus and an aid to the Board on delivering effective co-regulation.

'It is an institutional way to manage your business: care about it, act in the light of it, but don't use it to chart your destiny,' *Non-Executive*

'Co-regulation in practice could be stronger. Have the courage to make your rationale clear with the regulator, but don't risk your G1 and V1 regulatory rating,' *Non-Executive*

Key message:
It's not only about meeting the needs of the regulator. It's about taking ownership of the need to drive efficiency and value so that you have the resources to do what you are there for

Accountability to ratings agencies and lenders

Two views were expressed in this area by our interviewees. One is that ratings agencies and lenders are key and more important to their business than the regulator. The other is that ratings agencies and lenders are simply other stakeholders to manage and if you are doing the right things in the business, the ratings requirements will be met.

'There are hard cash consequences of failing to meet the requirements of investors, so we must do so. At the same time ratings agencies focus on event risks and not all of their tests may be good for the long-term future of the association,' *Non-Executive*

It could be argued the advent of sections on landlord's sites specifically for investors and the annual ratings review meetings with rating agencies enhances the external scrutiny and transparency of housing associations' businesses. Organisations with one or more credit rating are exposed to an additional layer of scrutiny – with some parallels with PLC investor presentations. There may be lessons here for the wider sector in demonstrating accountability through the provision of information similar to that provided on web pages for investors. Landlords may also want to consider how the organisation may fare in pursuing a shadow rating, as a means of receiving a respected, independent assessment of their performance.

Accountability to shareholders

The shareholder model as an accountability tool, drew a mixed response from organisations we spoke to. For a minority of mutual landlords the shareholder model absolutely drives governance and accountability structures. Members are the owners of the organisation and lines of accountability are clear. Community Gateway is a good example here – it is a tenant democracy enabling tenants to become members and owners of the organisation. Through that membership residents can get involved in decision-making at strategic and operational levels. However, other interviewees expressed concern regarding the potentially cumbersome nature of decision-making in a mutual structure and questioned the approach of feeding a governance machine where alternative structures could deliver similar results.

On the issue of historic shareholders (which many older housing associations have as a legacy of previous governance structures), interviewees expressed concerns regarding the issue of power without responsibility and many are actively manage down this cohort.

Accountability to staff

Non-Executives we spoke to were, on the whole, keen for better engagement and visibility with staff, but generally felt there was limited opportunity for this. Staff are viewed as stakeholders for the business - after all the success and delivery of operating plans is entirely dependent on their abilities. There are, however, practical considerations of time, ensuring Non-Executives do not step into the shoes of Executives and become too close to the operational side of the business. There is clearly a balance to be struck. Organisations need to go beyond token speeches by Board Members at staff away days and make staff more aware of the reason for the existence of the Board and its role. Examples of these can be seen in Challenging the DNA section (Non-Executives beyond the board room).

Accountability to local authorities and local enterprise partnerships

There was a general sense that, in core operating areas, relations with local authorities and local enterprise partnerships were changing and could be improved. Relationships are shifting as local authorities become resurgent in development with the potential for partnerships and competition in equal measure. There was recognition among our interviewees that councils need good strategic partners 'not a piecemeal response when it suits the registered provider'. For others, not wedded to a particular locality or operating across a very large area, there was a greater focus on business relationships. Both stock transfer housing associations and those with a federal governance structure have experienced difficulty with these issues and the creation of structures that are less dependent on constituencies and more reflective of business concentrations. Removing local authority constituency representation on a stock transfer housing association Board has, for some, enabled a more professional, business relationship to develop, without the potential conflicts created by stakeholder versus constituent member.

Key message:
The Board has a role in stakeholder mapping and in stakeholder relationship management.

Working with commercial subsidiaries

The study highlighted the challenge of managing the expectations of Non-Executives from a commercial background engaging in housing association structures for the first time. A robust induction process has an important role to play in ensuring that Non-Executives in this category who have been engaged for specialist knowledge have a clear understanding of the organisation's operating environment, its social values and purpose, the regulatory framework and the consequences on the wider business of the failure of a commercial business venture. Interviewees identified the need for parent Boards to put in place clear lines of sight to diverse business streams and ensure the framework for decision-making respects the wider business obligations.

Stewardship – upholding the values

Housing associations are long-term, values-based businesses with a requirement to operate in a business-like, efficient manner. There was universal agreement that Board members have a key role to play in upholding the organisation's values and that this needs to be actively addressed.

'Profiting from Values', a 2013 report by Savills on values-led businesses noted that the Ownership Commission Report (Challenging Ownership, 2012) identified the challenges to the PLC model. These included the emergence of 'ownerless corporations' influenced by short-term share trading. This in turn highlights the attributes of a values-based approach to business and how the commercial sector can perhaps learn from this.

Challenging Ownership recommendations also included broadening the definition of fiduciary duty (of shareholders, trustees, directors and key investment management companies) to include better stewardship, and requiring Corporate Directors to declare in financial statements how their decisions can be shown to be in line with the best long-term interest of the business.

This study identified concerns regarding the challenge of managing the renewal process of Boards as members reach the end of their tenures and instilling the understanding of legacy and values, as a guard against short-term thinking. Concerns were raised regarding the purely commercial (smaller, strategic) Board reacting to commercial pressures and lurching from one set of issues to another, risking the legacy of the housing association and potentially impacting on the reputation of the sector.

Key message:
As temporary stewards Boards should be mindful of the legacy created through strategic decisions – are today's decisions good for the long- term business?

Disclosure and transparency

Alongside the role of Boards and decisions about the appropriate governance structure, what other considerations are there for Boards to help improve effectiveness and transparency? How to best should they respond to the challenge of achieving accountability to key stakeholders in a way that is cost-effective to administer and meaningful to the recipient?

Disclosure – financial statements - The study identified support for making much better use of existing reporting mechanisms to improve accountability, in particular using financial statements to provide information on the Board, its members and their skills and expertise. Discussions suggest the sector undervalues the role of such statements. Reporting practice varies widely and interviewees felt a greater level of commonality and attention to providing meaningful data could enhance accountability and demonstrate Board ownership of business decisions:

Governance steps up a gear – Corporate Governance Review, Grant Thornton, 2013
Key findings of this annual review of private sector governance included a lack of succession planning at Board and Chair level, shortcomings in Board composition, highlighted a lack of information on business drivers/objectives and suggested a need for improved narratives in annual reports. Only 16% of companies provide a description of their business model and future plans that effectively links strategy to key risks

Key message:
Much more can be made of financial statements as a tool to improve insight and drive greater transparency and accountability

Third party review - Only a minority of participants said their Board regularly challenged governance structures or made use of third party advisors to scrutinise governance. They said Boards instead rely on established processes of appraisal and succession planning and recruitment, or important organisational events (regulatory downgrade, merger, etc) to maintain the governance infrastructure. Some suggested the challenging external context indicates a need for embedding regular reviews and a degree of external challenge into the fabric of governance. This might be promoting a discussion as part of the annual cycle, with a more formal review including external scrutiny and input every three years. Where external review is sought, Boards should ensure clarity in the review brief and consider the issues of regular versus new consultants.

Code compliance - Currently 87% of registered providers follow the National Housing Federation's Excellence in Governance code, and 13% follow the UK Corporate Governance Code. Across the sector 68% declare full compliance with their adopted code, meaning that 32% either don't declare or do not meet the code. Few organisations we interviewed described their code of governance as a live tool within the business. It appears on the radar as part of the annual compliance check. There are some exceptions – Derwent's Chair of Governance and Remuneration and the CEO are charged with proactive use of their code. Code compliance can be used as a means to improve organisational accountability and to showcase organisational skills and strengths through more informed disclosure.

Value for money statements - Much is made in the media and by some politicians of the perceived cost of running housing associations. The regulator introduced a requirement for published value for money statements, which by many has been viewed as a requirement rather than a strategy that is owned and active within the organisation. Taking ownership of the value for money strategy and using it to set targets and review performance can inform Board thinking on future strategies and business streams, as well as inform regulators and stakeholders.

As temporary stewards of an organisation, Boards have a responsibility to protect the interests of the business in the long term. Accountability practice should go beyond the annual stakeholder report or review demonstrating compliance with the business needs of the day. Accountability is about thinking ahead and considering the issues for the business and the stakeholder over the longer term.

Summary of Key messages:

As temporary stewards Boards should be mindful of the legacy created through strategic decisions – are today's decisions good for the long- term business?

The Board has a role in stakeholder mapping and in stakeholder relationship management

Much more can be made of financial statements as a tool to improve insight and drive greater transparency and accountability

It's not only about meeting the needs of the regulator. It's about taking ownership of the need to drive efficiency and value so that you have the resources to do what you are there for

Appendices

Appendix 1
The governance challenge

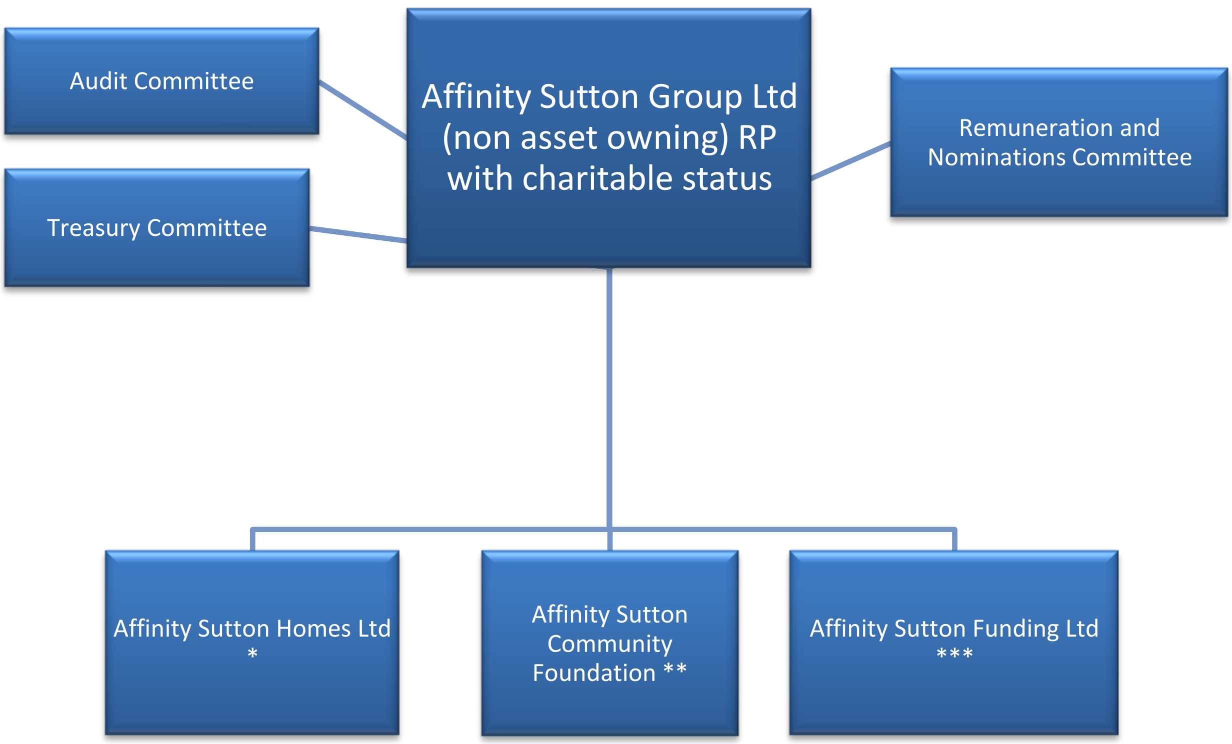
How do you define your governance – a set of questions to tease out your modus operandi. Make some space outside the boardroom to ask yourselves as a group what type of vehicle are we?

Defining our Role	
1.	What kind of business drives us and what does this mean for our structure and governance?
2.	How much of our governance time is spent on Fiduciary, Strategic and Generative activity – does this feel right?
3.	Do we consciously agree what not to do as well as what to do?
4.	When we agree our business plan are we looking at our 10-15 year legacy?

Considering how we operate	
5.	Have we skilled up ahead of our business plan?
6.	Is our financial literacy commensurate with our business?
7.	What makes a good board room conversation AND what allows this?
8.	What is the balance between Exec presentation and Non Exec contribution, do we make space for this at meetings or do we spend more time listening in earnest to what Exec have to say?
9.	Are we making the most of the skills and networks of our board members?
10.	What is our Board culture – do we welcome creative challenge, are we comfortable or compelling?
11.	Who are the real leaders in decision making and is this right?
12.	What about the quality of our reports – are recommendations; half baked, well risen or over done?
13.	Outside of the Boardroom – how do we engage with business is this right?

How are we on Accountability?	
14.	Who has a long term interest in our business and how are we filling the accountability vacuum?
15.	Does the world outside know enough about us – are we rising to the challenge of transparency?
16.	In co-regulation what is the role for our tenants beyond service performance?
17.	Have we fundamentally challenged how we make the best of ourselves and our organisation?
18.	Compliance is it for us or is it to meet the demands of others?

Appendix 2
Case study structures



A functional model – Affinity Sutton owns and manages around 57,000 homes across a wide geography

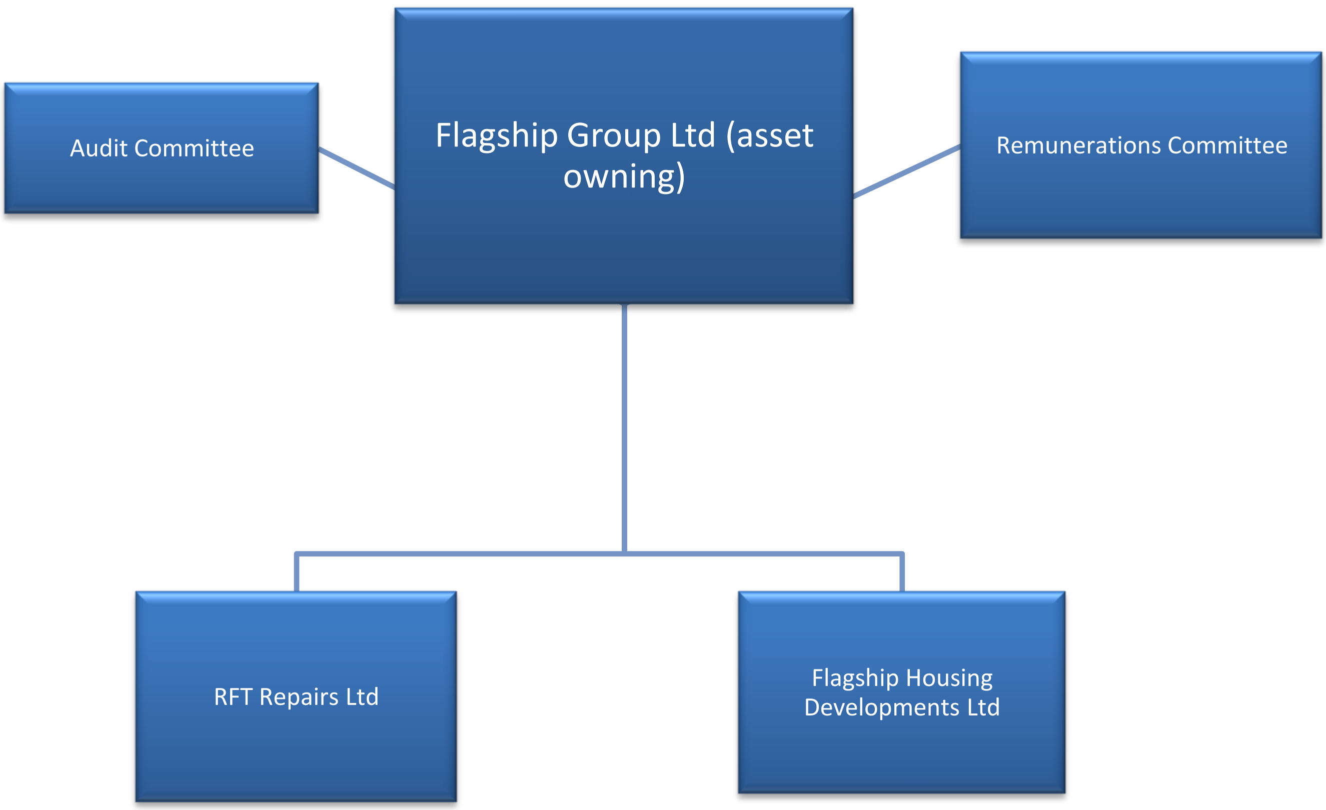
Group Board of 11 comprised of 8 NEDs, Group CEO, Group Directors of Finance and Development. The Group Board determines Group strategy and objectives

*Asset owning RP – Board of 10 including 4 residents, a Group Board NED (acts as Chair), the Group Operations Director and 4 independent NEDs. The Board has a service focus

** The Foundation Board governs the Group's substantial social investment activity

*** Facilitates access to the Capital Markets

Affinity Sutton also operates a range of JVs and Development Companies



A functional model – Flagship owns and manages around 22,000 homes across 4 counties in the East of England

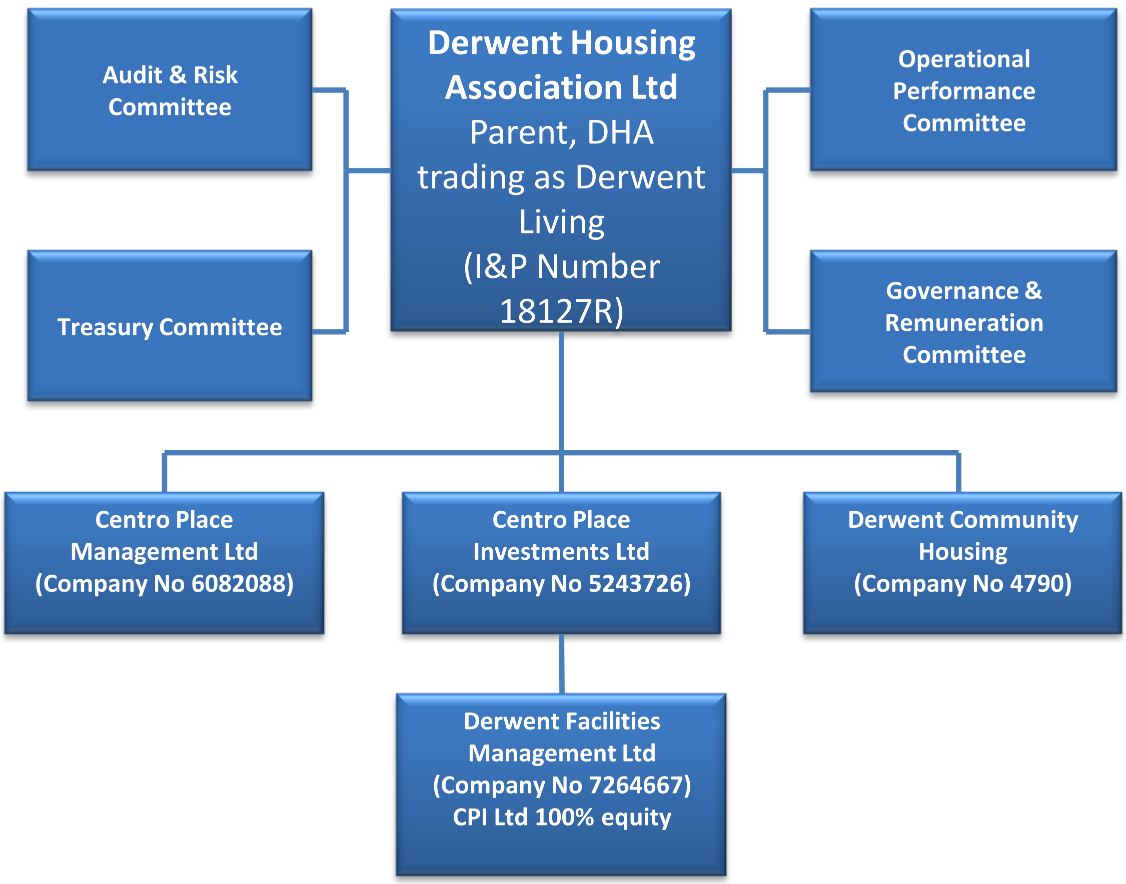
The Group has moved from a federal structure with 4 entities and 50 NEDs to a streamlined structure

The Group Board comprises 7 individuals; 4 NEDs, the Group CEO, Deputy CEO and Finance Director

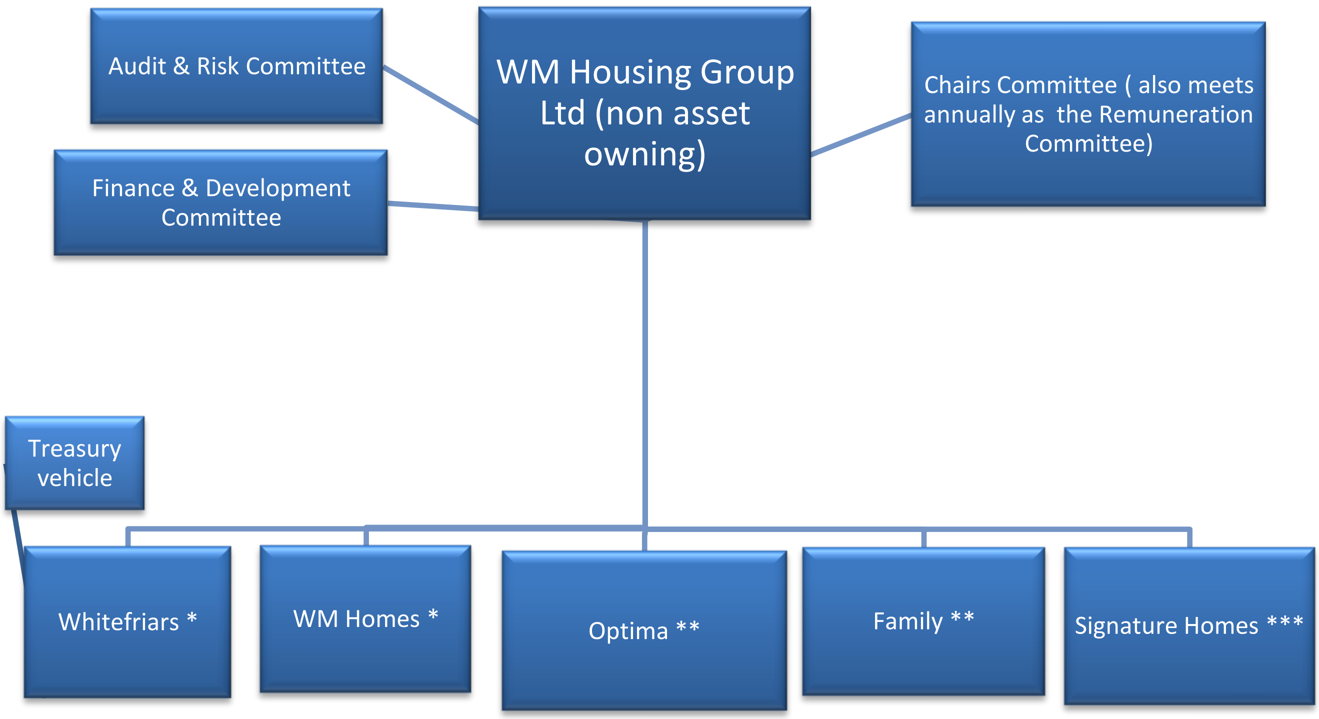
RFT operates as an in house property services company and aims over time to sell its services externally

Flagship Developments provides development services to the Group

The Group adopts a systems thinking, continuous review approach, evaluating and improving performance, including in governance. Flagship continues to remodel its board framework and may remove all sub committees from April 2015.



Derwent Living is a functional group structure. The group specialises in providing housing, facilities management services and student accommodation. It manages more than 25,000 properties in the Midlands, Yorkshire and the South East and is the fifth largest student provider nationally. The Group Board comprises 8 non exec directors. There are four corporate committees (Audit & Risk, Treasury, Operational Performance and Governance & remuneration). Core social housing is operated though Derwent Community Housing and the group has two limited companies covering commercial operations; Derwent Facilities Management and Centro Place Management.



A federal model, WM owns and manages around 30,000 homes across the diverse West Midlands region

The Group Board comprises of 10 including 9 NEDs and the Group CEO. Three Chairs from the operating entities are Group Board Directors. The Board sets the Group strategy and objectives.

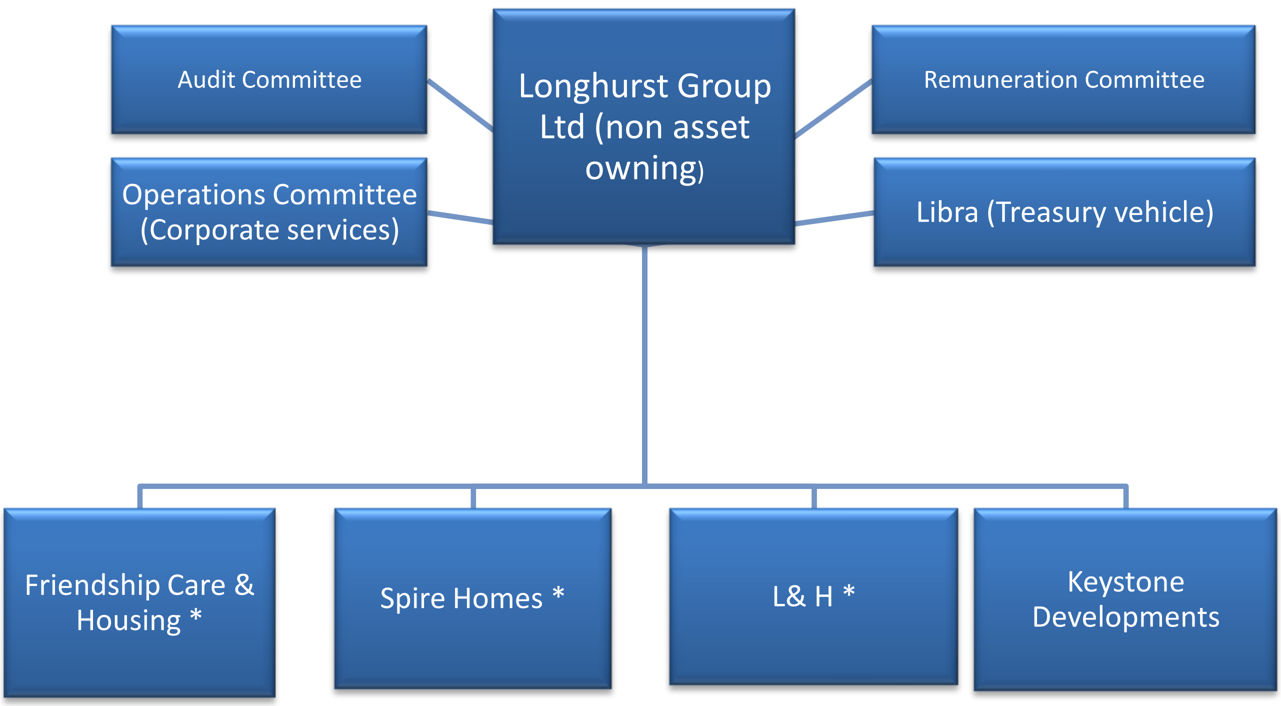
Group Committees include NEDs from the operating Associations, appointed for their skills

*Asset owning RPs. As the largest entity within the Group, Whitefriars hosts the Treasury vehicle. The Whitefriars Board includes up to 13 Directors recruited on a constituency basis (4 residents, 4 nominees of the LA, and 4 independent NEDs plus a co-optee space). WM Homes was formed via the amalgamation of three operating companies

** Optima and Family are asset owning RPs and recent new members of the Group. These RPs operate a co-terminous Board and with an integrated staff structure

*** Signature Homes develops for outright sale

The Group Executive Team operates with Group wide functional roles. In addition two of the Group Directors have a lead role respectively with Whitefriars and with WH Homes and Optima/Family



A federal model – Longhurst owns and manages around 18,000 homes across the East and West Midlands

Group Board comprises 12 NEDs, including the three Chairs of the operating RPs. The Board sets the strategy and objectives

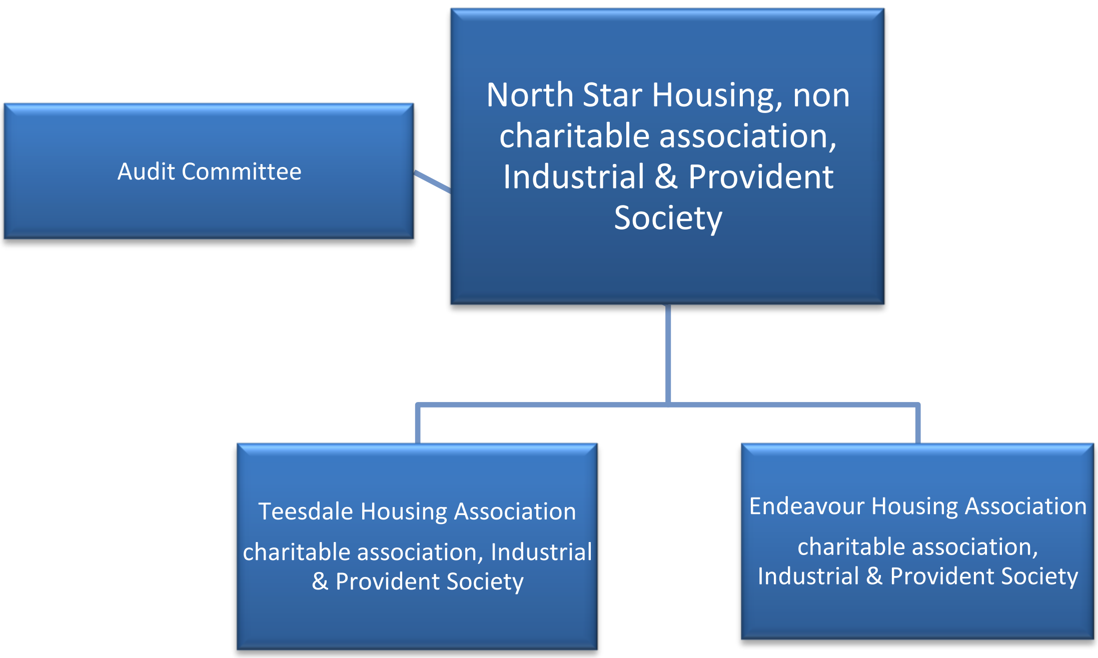
Group Committees operate with each RP nominating participants

The Group Executive Team is variously employed within the Group or within the member companies

*The asset owning RPs operate with a high degree of autonomy within the overall strategies of the Group.

** Keystone is a development company with expertise in retirement housing and mixed tenure development

A Governance Review is underway , including the structure, skills and practices that are fit for future



A federal group with an overlapping Board structure

North Star owns and manages approximately 3500 homes in the North East and North Yorkshire

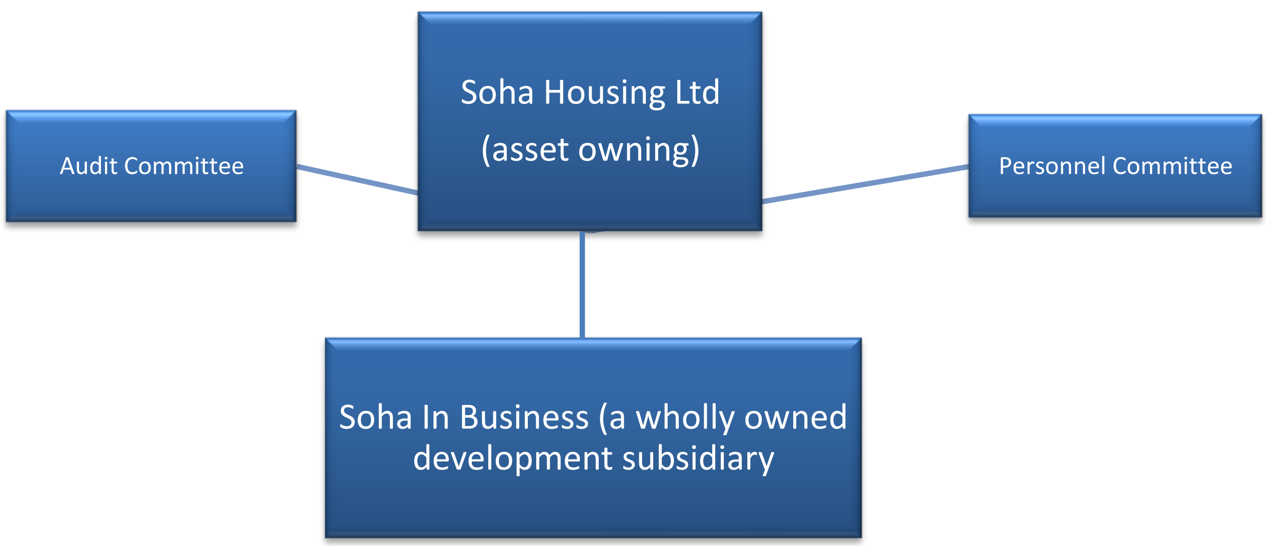
The three entities agreed in 2011 to operate an overlapping governance structure with a Board of 12, of which 8 members are common to all three Boards. The Boards meet on the same day to consider business respectively for the whole organisation and each entity

The Audit Committee comprises 7 members, of which 2 are independent of the Board

North Star has a closed shareholding membership policy, whereas Teesdale and Endeavour each operate on an open membership basis

Co-regulatory activity aims to maintain the organisations close connectivity with their customers and communities

The Group has a single Executive Team with functional responsibilities across the whole organisation



Soha Housing is an independent, community based housing provider, with 6000 homes and operating across Oxfordshire, Wiltshire and West Berkshire

The Board comprises of12 Directors; 4 residents, the Chief Executive and 7 independent people recruited for their skills. In addition there is a co-optee place currently filled by a resident

Soha Housing believes in maintaining a strong local presence and in punching above its weight nationally

Affinity Sutton

Longhurst Group

soha housing

wm housing group

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