LSVT Governance that is fit for the future

Exploring sector trends and best practice examples

Contents

Foreword from commissioners

I am very pleased to be writing the foreword on behalf of Bolton at Home, Incommunities and Magenta Living who commissioned Altair in the summer of 2015 to carry out research to explore best practice in governance for large scale voluntary transfer associations (LSVTs). LSVTs were set up for a specific purpose and we have all delivered major improvements for our tenants over the years. But the world has changed dramatically and we need to change too in order to manage the challenges ahead.

We thought it would be useful for the sector to be able to capture how many organisations are responding to this more uncertain operating environment where many are moving into more diverse activities and in some cases ventures which carry higher levels of risk. Delivering these changes effectively requires new skills, knowledge and experience for the boards and management teams of all housing organisations.

We agreed that this report should be made freely available so that the learning could be shared as widely as possible. There are lessons to be learnt for all of us. The report is being made available on our websites, and through the websites of both Altair and the National Housing Federation.

On behalf of Bolton and Home, Incommunities and Magenta Living we would like to thank all those organisations that took part in the surveys and focus groups and particularly Havebury Housing Partnership, First Choice Homes Oldham, Wellingborough Homes and the Aster Group who agreed to be featured as case studies and examples of evolving practice. We would also like to thank the NHF for the use of their survey data, Steve Douglas, Judy Wayne and the team at Altair for carrying out the research and producing this report.

We hope that readers will find the report useful and be able to use the learning in their organisations.

Brian Simpson

Chief Executive

Magenta Living

Disclaimer

The views, findings and recommendations included in this report are entirely those of Altair and are based solely on an assessment of the information made available during the course of the research.

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Executive summary

About the research

Large Scale Voluntary Stock Transfer (LSVT) associations now hold 44% of the 2.7m homes owned and managed by all housing associations: a significant housing sub-sector. Many LSVT associations are looking to respond appropriately to the HCA's revised Regulatory Requirements and NHF Code of Governance (2015). They, like the housing sector more generally, also face increasing challenges presented by the external operating environment. Many of these have stretched the capacity, viability and adequacy of organisations' governance to manage the more complex risks associated with increasing diversification. Although these circumstances are faced by all housing associations, the nature of LSVTs, and the constituency model upon which they were founded, means that addressing these increasing pressures requires a wider set of considerations.

Despite the on-going changes and increasing demands faced by LSVT associations in governing their organisations, there has been little recent research and guidance provided in this area.

In August 2015 Altair Consultancy and Advisory Services Ltd (Altair) was invited to carry out a comprehensive research study on behalf of Magenta Living, Incommunities and Bolton at Home.

The focus of this research is to explore best practice approaches in the sector to governance for LSVT associations. In particular, we aim to identify the trends, strengths, weaknesses, and learning points of different governance models and approaches that have been recently adopted by LSVT organisations.

We spoke to a range of providers, and have focussed on a qualitative approach supplemented by available data, including a recent survey undertaken by the NHF of over 70 LSVT organisations.

Key findings

With 75% of transfers having taken place before 2006, many are approaching or have completed the fulfilment of their transfer obligations. As a result many are diversifying their activity. The differences between "traditional" and "LSVT" associations appear to be diminishing. Many with whom we spoke were planning to diversify, or had already diversified, their activities into more commercial sectors, such as developing homes for market rent or outright sale.

With the increasing pressures associated with diversification, we have established that several LSVT associations who have retained the 'standard' constituency model faced specific challenges in their governance arrangements, particularly in ensuring that they have access to suitable skills to manage complex risk. This is not to say that the necessary skills are not present within the traditional LSVT classes of board membership but, in general, by limiting the recruitment to the board to certain groups, it does make the process of identification and selection more challenging.

This comes at a time when the emphasis on the need for requisite skills on the board has been heightened due to the demands presented by the external operating environment and changes in the regulatory framework and NHF Code.

Many LSVT organisations have adjusted to changing circumstances, developing their role and purpose beyond the initial promises made to tenants at transfer.

There is a range of approaches taken to board composition for maturing stock transfer organisations; it is for each organisation to come to a view as to what is the best structure for their governance. Many have introduced board pay, streamlined their arrangements, and reduced the size of their board to enhance and supplement their approach.

Most significantly we have found that there has been, and continues to be, a move towards more skills-focussed governance arrangements. Several LSVTs observed that many of the skills required to meet future challenges were not seen as necessarily readily and easily available within particular classes of board membership, and that the constituency approach made recruiting the right skills to their boards more difficult.

The NHF survey has indicated that LSVT organisations are undoubtedly moving their overall structures and compositions towards more skills-based boards. For many of the LSVTs we spoke to, making changes to their board composition was the primary solution to help support diversification of their activities, their ability to manage more complex risk, and to meet the demand for more specialist and technical skills.

However, when making such changes it is essential that existing relationships are not devalued and the benefits of the constituency model are not lost. These include:

- Maintaining a customer-focussed ethos
- Ensuring there is adequate accountability, relationships and partnership working with the organisation's primary stakeholders
- Enabling the board to 'hear the voice of the customer' so that both the strategic direction and the shaping of service delivery reflect both future and current customer needs appropriately.

Some organisations are taking steps to ensure these benefits are maintained and enhanced by reviewing other relevant arrangements when they change their board composition. These include areas such as resident involvement as well as the communication strategy and partnership working with the council. This is an approach that should be adopted by all organisations making significant changes to their governance.

Many who have made significant revisions to their arrangements have done so with relative ease, though meeting some challenges along the way. In particular, the 'golden share', which exists for some but not all LSVTs, was seen as a significant barrier to change if the authority did not want to relinquish its influence over the association. In addition, an anomaly continues to exist in some group structures where golden shares have remained in subsidiaries. For several LSVTs this remains a significant obstacle and can mean that the primacy of the parent is not clear or consistent. This is something that should be addressed.

Conclusions

As the Regulator's expectations increase, and there continue to be increasing challenges presented by the external operating environment, organisations will have to adapt by adopting more robust and intensive skills-focussed approaches that will support their ambitions, now and into the future.

To support future LSVTs in this endeavour we advise that government places the required emphasis on the need for adequate skills when transfer organisations are created. At present the current

transfer manual, which is in effect until March 2016 and refers to the Regulatory Framework from April 2012, only mentions the need for a group structure and not a single centralised organisation, "to meet the requirements of the regulatory framework with particular reference to the governance element within the Governance and Financial Viability Standard". This should be revised to reflect current expectations and demands on all providers, as well as good practice in governance more widely.

For some organisations, barriers exist that are beyond their control. This makes it difficult for them to maximise the benefits of change. Several may find their current approach will not meet their future business. To remain robust and effective, organisations have recognised that they need to remain flexible by adapting to their surroundings. Those which are modelling best practice have ensured their approach and processes remain flexible and agile, regularly reviewing the skills they have available and adopting arrangements that ensure those skills remain up-to-date and relevant to their organisation's needs.

Now is the time to ensure that LSVTs have access to the right range and depth of skills, knowledge and experience. Those who do not adjust to the challenges they face are likely to find the capacity, viability and adequacy of their organisations' governance threatened and their effectiveness and resilience undermined.

1 | Introduction

1.1. About this research report

1.1.1. In August 2015 Altair Consultancy and Advisory Services Ltd (Altair) was invited to carry out a comprehensive research study on behalf of Magenta Living, Incommunities and Bolton at Home.

1.1.2. The focus of this research is to explore best practice approaches in the sector to governance for Large Scale Voluntary Stock Transfer (LSVT) associations. In particular, we aim to identify the trends, strengths, and weakness as well as the learning points of different governance models and approaches that have been recently applied by LSVT organisations.

1.1.3. This research comes at a time when many are looking to respond appropriately to the Homes and Communities Agency's (HCA) new regulatory requirements. The latter has stressed the importance of skills-based governance, while organisations are still mindful of the need to balance this with maintaining effective accountability to their tenants and local authority stakeholders. Many LSVTs are also growing and diversifying the range of services they offer as a consequence of the further pressures they are facing from the external operating environment; with many of these pressures challenging the capacity, viability and adequacy of organisations' governance.

1.1.4. Despite the on-going changes and increasing demands faced by LSVT associations, there has been little recent research and guidance provided in this area.

1.1.5. This report presents the findings from our research exploring sector trends and best practice. The report is intended to help associations develop and execute highly effective governance arrangements that support their ambitions, now and into the future.

1.1.6. To complete this research we used a variety of research methods to obtain both qualitative and quantitative information on best practice LSVT governance arrangements. This has included an online survey, telephone interviews and a focus group. We have also drawn on our own knowledge and experience of governance, as well as using a range of publicly available data and information, including a recent survey by the National Housing Federation (NHF). This has provided us with a substantial resource of information which has allowed us to provide a thorough assessment of key lessons and considerations relating to LSVT governance.

1.1.7. We thank all of those who contributed to this report, willingly giving their time and sharing their knowledge and experiences. This report was completed in late 2015.

2 | Context

2.1. LSVTs: A core feature of the social housing landscape

2.1.1. Since their inception in 1988, LSVT associations have become a core feature of the social housing landscape. The Housing Act (1988) laid the foundations for 1.3 million homes to be transferred from council ownership to that of private registered providers. This led to 300 large-scale transfers by over 200 local authorities. The model gathered traction primarily because associations were able to borrow to invest in homes, neighbourhoods and services without recourse to the constraints imposed on local authority investment by the Public Sector Borrowing Requirements. These latter meant many local authorities were restricted in borrowing money to make improvements to their stock, whereas private registered providers were able to access private investment.

2.1.2. There have been a number of phases of stock transfer relating to changes in government policy. In the early years, local authorities with low levels of housing debt were attracted by the prospect of a capital receipt after paying off housing debt. The popularity of transfers led to government placing a financial levy on transfers which was designed to tax the sales receipts of councils. This was reflected in the 1995 Estates Renewal Challenge Fund which provided dowry funding for partial transfers with negatively valued stock in metropolitan areas. The model gained momentum again in 2000 with the introduction of the Decent Homes Standard requiring significant investment in stock which councils were unable to finance. In recent years, due to changing funding arrangements to support negative value transfers, the number and scale of stock transfers has steadily declined, with 75% of transfers taking place before 2006.

2.1.3. Stock transfer has been the single largest source of new association stock over the past 30 years. Over a third of English local authority housing stock has transferred to the housing association sector. As a consequence, LSVTs now represent 44% of the 2.7m homes owned and managed by all housing associations. This has brought many advantages; for example, in 2008 it was estimated that the sector had attracted £14bn worth of investment to improve older properties and has enabled the delivery of thousands of new affordable homes. However, despite this, the wider benefits of stock transfer have been challenged in academic and wider literature.

2.1.4. Recently there has been a notable spark in LSVT activity as, in three areas, councils with Arm's Length Management Organisations (ALMOs) transferred their stock following positive tenant ballots: 8,500 homes transferred to Salix Homes in Salford; 5,300 homes moved to Gloucester City Homes (GCH) in Gloucester; and most recently, in April 2015, 18,400 homes transferred from the three County Durham ALMOs to County Durham Housing Group (CDHG). The latter marked the biggest stock transfer for more than a decade. The timing of all these transfers was influenced by deadlines in the Housing Transfer Manual which have restricted the provision of Government support for the write-off of historical housing debt.

2.1.5. Yet, while stock transfer continues to influence the sector and some LSVTs still face challenges, particularly relating to the valuation of their stock and financial freedoms, the vast majority of LSVT associations have entered, or are beginning to enter, a phase of both financial and governance maturity. Before 2010 the stock transfer sub-sector was in deficit; by 2013, however, providers were generating a total surplus of £672 million, equating to 35% of the sector's overall surplus. Many LSVTs are approaching, or have completed, fulfilment

of their transfer obligations and, as a result, are diversifying their activities and developing new homes. The differences between "traditional" and "LSVT" associations appear to be diminishing.

2.2. LSVT governance arrangements in the current operating environment

2.2.1. The LSVT approach to governance is distinctive, with the need to maintain visible accountability to their principal stakeholders deeply rooted in their origins. Governance arrangements are devised to muster stakeholder support into the governing body; providers make a firm commitment to deliver legally enforceable "promises" to tenants during consultation and at the ballot. LSVTs are expected to support the delivery of councils' overall vision for housing and accept nominations from waiting lists. Linked to this, it is accepted practice for LSVT boards to be formed on a constituency basis (also known as the Local Housing Company Model). Within this approach there is typically equal representation of tenants, council nominees (usually councillors) and 'independents'. This is often enshrined in the governing Rules of an organisation and its shareholding membership.

2.2.2. The strengths of this model are in areas such as creating a more customer-focussed ethos and organisational culture, being a vehicle for empowering tenants, and through maintaining local accountability through direct representation.

2.2.3. Over the years several LSVT organisations have substantially evolved their approach to governance, with more than half entering into group subsidiary bodies by 2007. Under these arrangements it is common for constituent representation to diminish, although not necessarily entirely. Others have made constitutional changes since set up, such as reducing the number of board members (to align with the National Housing Federation's (NHF) recommendations that boards should have no more than 12 members). Others have opted for the Community Gateway model, which was designed to enable social landlords to deliver effective community involvement. Under this approach tenant board members often constitute the largest interest group on the board.

2.2.4. Research exploring specific governance arrangements of LSVTs is outdated, with little or no substantial academic study having taken place in the last five years. Yet, due to recent developments in the operating environment and the increased diversification of the sector, the need to understand best practice approaches to governance, particularly in the LSVT sub-sector, has never been more pertinent.

2.2.5. In particular, the Budget 2015 has brought a raft of further policy changes which will have a significant impact on housing associations, including:

- Social housing rents to fall by 1% for four years
- The benefit cap lowered to £20,000 (£23,000 in London)
- Housing benefit be abolished for under-21s
- Social housing tenants earning more than £30,000 (£40,000 in London) will see their rents increased to full market rates
- Working-age benefits will be frozen for four years
- The right to buy will be extended to housing association tenants.

2.2.6. Pressures brought by these changes are likely to significantly undermine many associations'

business plans. Many will have to re-evaluate their purpose or supplement their income by further diversifying their activities to deliver their strategic ambitions. This will place increasing pressure on organisations to ensure that they have board members with the skills and experience necessary to adequately control, support and direct the organisation in these areas.

2.2.7. In recognition of the risks already associated with the continuing move towards alternative sources of funding, the HCA's Regulatory Framework for Social Housing (April 2015) has placed renewed emphasis on the requirement for sound governance and leadership, whereas the Housing Corporation previously only expected the boards of newly-established stock transfer organisations to follow the 'thirds' model. For the HCA, the focus on good governance now lies more generally on ensuring that all organisations have the requisite skills, experience and capabilities in place so that organisations can fully understand the impact of their decisions. This was underlined in the report by Altair on the lessons learnt from Cosmopolitan Housing Group (2014), which demonstrated the need for high quality decision-making at board level, and taking a robust view of the risks that usually accompany a more commercial approach to service delivery.

2.2.8. Currently, the Housing Transfer Manual, which provides guidance to local authorities considering transfer, refers to the April 2012 Regulatory Framework. The Manual is effective only up to March 2016 and should be revised to reflect current HCA expectations. At present the Manual only refers to the need for group structures and not single centralised organisations "to meet the requirements of the regulatory framework with particular reference to the governance element within the Governance and Financial Viability Standard".

2.2.9. The NHF has aligned its Code of Governance (2015) to these expectations by placing heavy emphasis on the skills and knowledge needed to run a business. Specifically, requirement (D7) states:

- "Where the organisation's constitution provides for one or more board members to be nominated or directly elected, the organisation must ensure that those coming forward bring skills and experience that meet the needs of the board, and that they are fully aware in advance of the responsibilities that they will undertake. New board members must not be appointed without undergoing a due selection and assessment process to establish their suitability."

2.2.10. A recent study by Grant Thornton found 92% of the largest housing providers in England follow the NHF's Governance Code. Changing expectations, therefore, have specific relevance to the way LSVTs are governed. They have been developed explicitly to address the "weaknesses" associated with the standard governance model adopted post-transfer (Bull, 2015). Several LSVT associations may find that their current approach to recruiting new members does not comply with this element of the NHF code and will require significant adaptation.

2.3. Research questions

2.3.1. Given the changes and increasing demands faced by associations, this research primarily seeks to address the issues and questions that have emerged from this changing dynamic, namely:

With increasing pressure on associations, what governance approaches and models have been recently adopted to ensure LSVT organisations' governance is fit for purpose now and for the future?

What are the strengths and limitations of these different approaches, and how have organisations maintained accountability to their key stakeholders?

What can be learnt from best practice and the journey of those who have made changes, to strengthen their governance, that has involved changing the relationship with their sponsor local authority and with their tenants?

3 | Approach

3.1.1. This research has involved a combination of research methods to explore and address the questions identified in the previous section, including:

- A focus group with six LSVTs and telephone interviews with nine associations
- An online survey – completed by twenty organisations
- Two case studies and two examples of organisations which have made recent changes to their governance arrangements
- Desktop research.

3.1.2. An overview of each of these activities is provided below, while the findings identified from the research are summarised in the following section.

3.2. Focus group and telephone interviews

3.2.1. To explore best practice governance approaches and obtain qualitative data for analysis, we held a focus group with eight representatives from six LSVT organisations operating a range of governance models in the North West. We also approached organisations from other regions in the country to take part in telephone interviews, of which nine were completed.

3.2.2. Using our knowledge and networks of relevant professionals, we aimed for a cross-section of representatives from LSVT landlord associations who are in the process of changing, or who have made changes to, their governance structures. This was to understand how organisations are adapting their arrangements to meet the challenges of the external operating environment and regulatory expectations.

3.2.3. An interview and focus group guide was then developed in partnership with Magenta Living, our main sponsor, to ensure the research questions were appropriate.

3.2.4. Telephone interviews took around 45 minutes to complete, while the focus group lasted two hours.

3.3. Online survey

3.3.1. To engage a wider cohort of LSVT associations, and to obtain some broader quantitative information, we carried out a brief online survey. This asked questions to gauge the nature of associations' current governance structures and their approach to stakeholder engagement.

3.3.2. The survey was sent to over 150 LSVT associations identified through publically available databases and our own contacts. Of those who were invited to undertake the survey, 20 submitted a completed response.

3.4. Case studies and desktop research

3.4.1. Using output from the interviews we developed case studies which identify good governance models. These have been included throughout the findings section of this report. We have

also used desktop research to supplement our approach, including a selective literature review of academic and professional literature. (A full bibliography is listed at Appendix 1).

3.4.2. The aim of the case studies is to add depth to the research by showing how other LSVT organisations have successfully evolved their approach to governance to ensure that it is fit now and for the future; that strategic objectives are met; and accountability maintained and developed.

3.4.3. Case studies of the following organisations have been selected because they have taken varying approaches to achieving governance structures that are fit for the future[1]:

- Havebury Housing Partnership - an excellent example of how to separate operational and strategic roles within a governance structure to create a streamlined, skills based and effective board. Havebury have retained strong resident links through its tenants forum and performance and scrutiny panel, while strengthening their governance accountability to residents by incorporating representatives in each element of their framework. The association believes that governance changes have helped Havebury to remain in a strong financial position and still be directly accountable to its residents.
- First Choice Homes Oldham – has only recently made changes to its governance arrangements by moving to a more skills-based approach to board recruitment. It is a positive example of how to successfully ensure a board has access to the right mix of skills while maintaining accountability to key stakeholders.

3.4.4. In addition to the case studies, using desktop research, we have also included examples of two organisations which have made recent changes to their governance arrangements:

- Wellingborough Homes – an association that represents one of the many organisations which have made recent changes to their board composition and approach to resident engagement.
- Aster Group – Aster, like many other housing providers operating within group structures, has taken several steps to adapt and streamline its governance arrangements following a far reaching review in 2013-14.

3.4.5. We have also drawn upon the findings from an online survey recently undertaken by the NHF which focussed on exploring LSVT governance arrangements and the changes organisations have made. The survey included responses from 76 associations and provides the most up-to-date, quantitative information available in this area.

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[1] All of the case studies included were rated G1 V1 at the time of publishing this report.
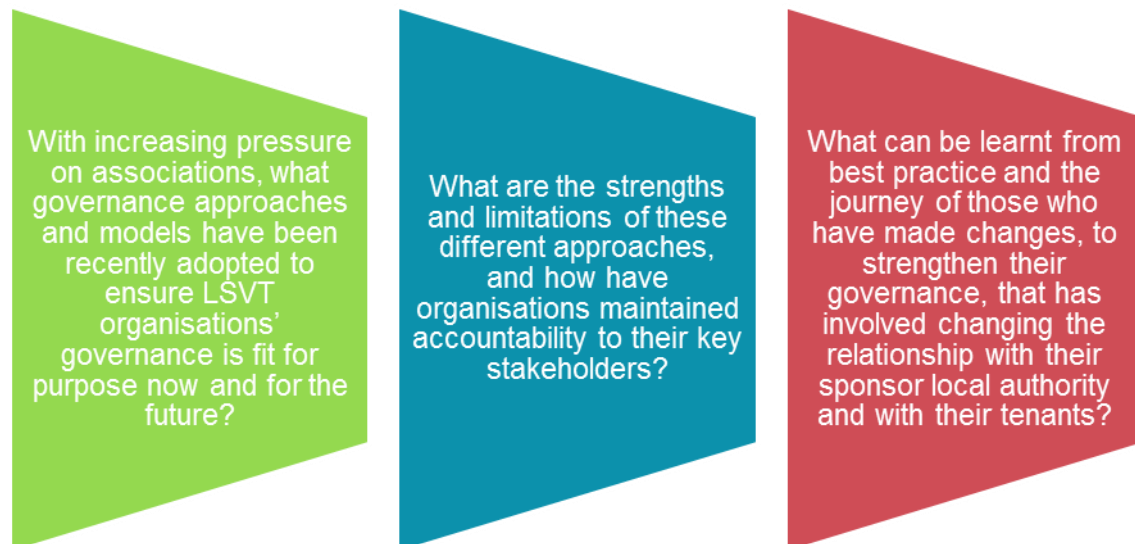
3.5. Confidentiality

3.5.1. All individuals were told that their specific comments would remain confidential with only a summary of the overall themes reported. Direct quotes have been anonymised.

3.5.2. All organisations cited as case studies and examples have given prior approval to being named in this report.

3.6. Strengths and limitations of our approach

3.6.1. We have used a variety of research methods to obtain both qualitative and quantitative information on best practice LSVT governance arrangements. This has provided us with a substantial body of information from which we can draw valid conclusions.

3.6.2. However, given time constraints of this project, there are limitations to our approach. We have focussed on the experiences of housing professionals and have not covered all LSVTs. There are more representatives from the North West in our sample than from other parts of the country, although we have involved organisations from all regions across England. We have not spoken to any associations in Wales or Scotland.

3.6.3. Nevertheless, we have spoken to a broad range of providers. The qualitative approach, supplemented by available data, has enabled us to understand and present the learning points of different governance models that have been implemented recently by LSVT organisations.

4 | Findings

4.1.1. Our aim is to explore and address the following research questions identified earlier:

With increasing pressure on associations, what governance approaches and models have been recently adopted to ensure LSVT organisations' governance is fit for purpose now and for the future?

What are the strengths and limitations of these different approaches, and how have organisations maintained accountability to their key stakeholders?

What can be learnt from best practice and the journey of those who have made changes, to strengthen their governance, that has involved changing the relationship with their sponsor local authority and with their tenants?

4.1.2. Despite there being a range of views and models in place, there were some consistent themes identified during the research process. We have split these into two areas:

- Evolving approaches to governance, what changes are being made and why?
- Making the transition to skills-based governance: Learning points from the journey.

4.2. Evolving approaches to governance, what changes are being made and why?

4.2.1. The LSVTs we selected were in the process of changing, or had already recently made changes to, their governance structures and arrangements.

4.2.2. Using their feedback, and wider research available, we have found that changes to the following areas are being made by LSVT organisations to ensure their governance is fit for the future:

- Board composition
- Board remuneration
- Size and structure of the board
- Resident scrutiny and engagement.

4.2.3. The key drivers and impact of these changes are explored in detail below.

4.3. Board composition – Moving to a skills-based assessment

4.3.1. One of the key expectations of the NHF Code of Governance is for organisations to ensure that nominated members have the "skills and experience that meet the needs of the board…New board members must not be appointed without undergoing a due selection and assessment process to establish their suitability".

4.3.2. We asked organisations who had retained constituencies on their board how they were meeting this requirement.

4.3.3. All those we spoke to welcomed the move to a skills focus in recruiting constituencies; many had struggled to ensure their governance was fit for purpose when board members who did not necessarily have the requisite skills had been put forward from the local authority or tenant groups. Some had already taken steps to introduce skills assessments into their recruitment procedures prior to the changes to the NHF Code, having recognised the drawbacks of elective or nomination processes.

4.3.4. Many had adopted the following processes into their constituency recruitment arrangements:

- Skills matrix, clear role descriptions and 360 degree appraisals – many organisations had already adopted interview and skills-focussed approaches to the recruitment of tenants, such as advertising and interviewing for the role against a clear role description and tailored skills framework. This approach was now being developed so that something similar could be applied to local authority nominees, who were more commonly appointed without a rigorous skills appraisal and selection process. Organisations had begun to introduce a skills matrix for this purpose, which was regularly reviewed and embodied their skills requirements, alongside a clear job description outlining the responsibilities, competencies and expectations associated with the post.
- Developing a protocol with the local authority - we were made aware that associations have developed protocols with their councils as a means to remove the council's right to nominate candidates without a skills-based assessment. This mechanism can include negotiated options and can enable organisations to transition to a more skills-focussed recruitment approach without necessarily having to change Rules or constitutions.
- Gateway approach – some 'gateway' associations had retained tenant nominations through elective routes, but had developed a robust learning and development programme. This can include a board peer-to-peer mentoring programme. Organisations have also introduced mechanisms whereby members of their elective tenant bodies have to reach a certain skills threshold before they can be elected to the board. For example, one organisation introduced different classifications of skills which are gold, silver or bronze. Prospective board members have to be certified as 'gold' to become a board member.

4.3.5. For many LSVTs the benefits of recruiting nominees using skills-based approaches have not yet been realised due to limited turnover of existing members. While these approaches should address the skills deficit that can be present at board level due to nomination processes, it still assumes that the constituencies (councils, tenants) identify and recruit or select. This can be a challenge depending upon the pool of skills and experience available.

4.3.6. Many have opted to review their overall board composition to address this. This is discussed in more detail below.

4.4. Changes made by LSVT associations: board composition

4.4.1. It is accepted practice for LSVT boards to be formed on a constituency basis. Within this approach there is typically equal representation of tenants, council nominees and independents. This is significantly different from "traditional" associations where research by Inside Housing has indicated that only 10% of overall board membership are tenants, the remainder bring independents or executives.

4.4.2. Many we have spoken to have made changes in recent years to their board composition to ensure their governance is fit for purpose. This is displayed in Figures 1 and 2 below.

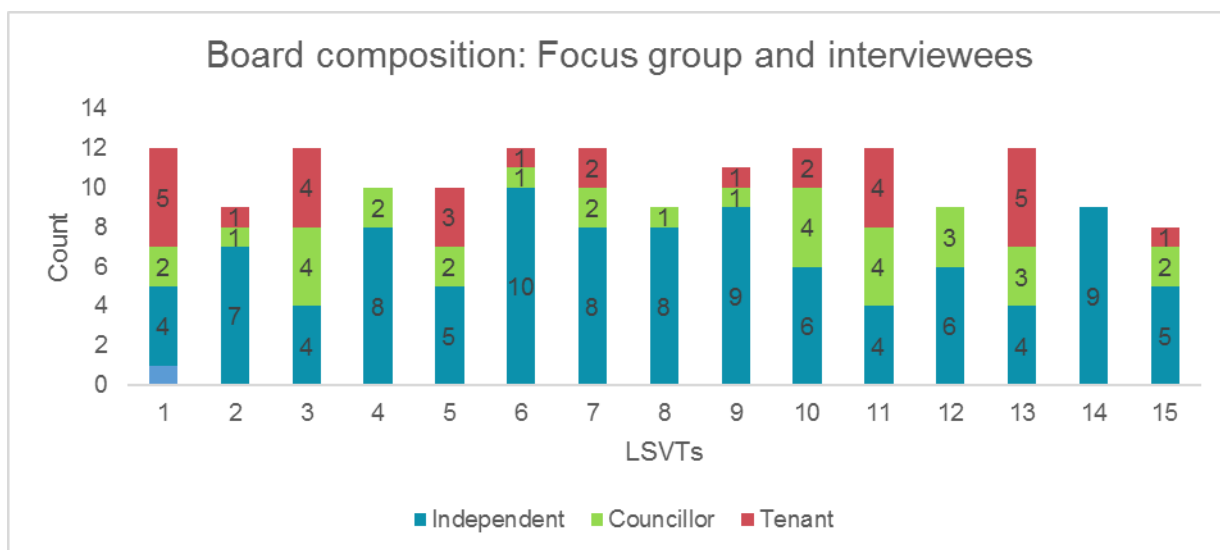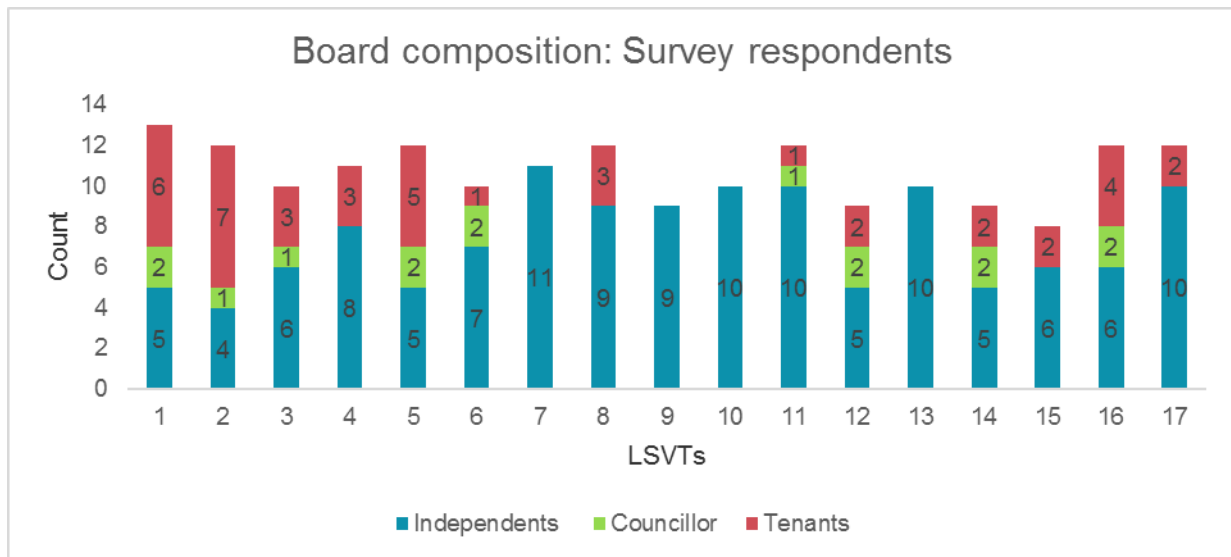*Figure 1: Board composition of focus group participants and interviewees*

Figure 2: Board composition of survey respondents

Board composition: Survey respondents

4.4.3. We found that the majority of those involved in the research had adapted their board composition to move away from the standard LSVT constituency model to include more independents recruited purely on a skills basis. This was done by reducing the presence of either tenants and/or councillors, but still reserving a minimum number of places for these groups. This represents a 'hybrid' between the standard LSVT constituency model and the approach to single status boards often adopted by "traditional" HAs. An example of an organisation which has taken this approach is Wellingborough Homes (see page 23). Several have also moved to a single status model with a 'purely' skills-based approach so there is no longer any constituency nomination to the board; some of these organisations retain council or resident members on their boards, but they sit as independents, recruited solely for their skills.

4.4.4. There are strengths and weaknesses associated with each approach to board composition for stock transfers, which we have established through desktop research and through the interviews. We outline these below:

Figure 3: Strengths and weaknesses, board compositions

Traditional constituency model Strengths	Traditional constituency model Weaknesses
• Customers' views with direct input at Board level • Direct accountability to stakeholders at top level • Closely tied to community mission	• Constrained by local politics and partnershps • Often failure to grasp complex problems and provide sufficient challenge • Insufficient skills within constituent pools to adapt to external operating enviornment • Problems with recruitment/retention • Tendency to dwell on operational detail not strategy • Potential conflicts of interest in decision-making
'Hybrid' Strengths	'Hybrid' Weaknesses
• Locally focussed and place shaping • Tenant and/or LA board members still feel valued • Greater focus on skills	• Still may not grasp complex issues • Difficulties remain when recruiting members to constitutent roles who have the requisite skills • Potential confusion over roleand responsibility on the board
Single status Strengths	Single status Weaknesses
• Entirely based on skills • Supports diversification and ability to manage more complex risk • More streamlined approach to recruitment; one process for all • Clarity over roles and responsiblities	• Risk of losing customer focus and relationship with local authority if not strengthened elsewhere • May be difficult to recruit professionals from diverse range of backgrounds

4.4.5.   The NHF recently researched the current compositions of LSVT boards (2015) by surveying 76 LSVT organisations. Although not necessarily a fully representative sample, their data suggests that the average LSVT board composition is now one local authority nominee, six independents and three tenants. Further details are in the chart below:

Figure 4: Changes to board composition (NHF, 2015)2

Stayed the same	4
Reduced size of board but retained original apportionment i.e. have gone from 5/5/5 to 4/4/4	6
Reduced or removed only local authority nominees	6
Reduced or removed only tenants	2
Reduced, or removed, both local authority nominees and tenants	55

4.4.6. Like those who took part in our research, many LSVT organisations in the NHF survey have opted to fully remove or reduce the number of local authority and/or tenants on their board. However, only a minority (13 out of 76) appear to have adopted a fully single status board. The majority have, therefore, increased the numbers of independents on the board while retaining an element of constituency membership.

4.5. The key drivers for changing the board's composition

4.5.1. Most LSVTs involved in our research had delivered on their promises or were reaching maturity and, as a result, had diversified their business model. Many explained that, as a consequence of this and the increasing challenges faced by the sector, there was a heightened focus on needing the right skills on their boards. This is reflected in the quotes below:

- "*We are conscious of the budget and our financial position. Now we are coming out of our promises, we are looking at diversifying; our development programme has started. Pressure is therefore building to get the correct skills on the board. It's becoming more difficult to rely on getting those on a constituency basis; our strongest members are the independents.*"
- "*Our external environment and our funding is more complex, we also have more subsidiaries reporting into a group structure. So our governance model reflects this and the need to manage the associated risks.*"
- "*I think the nature of the business is just starting to change. It's evident our approach to governance will have to change soon so we can prepare ahead of those changes.*"

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[2] Three organisations did not give complete answers so have been removed from the sample.

- *"The Board asked themselves 'are we fit for purpose?'– The answer was yes. But then we also asked 'could we be better in the future?' –they came to the conclusion that focussing on skills would strengthen our governance for the future. They recognised that the world is more complex, and that we need our governance to be the best for the organisation."*

4.5.2. We asked those who completed our survey whether they were planning to diversify their activity in the next five years. This is displayed in Figure 5:
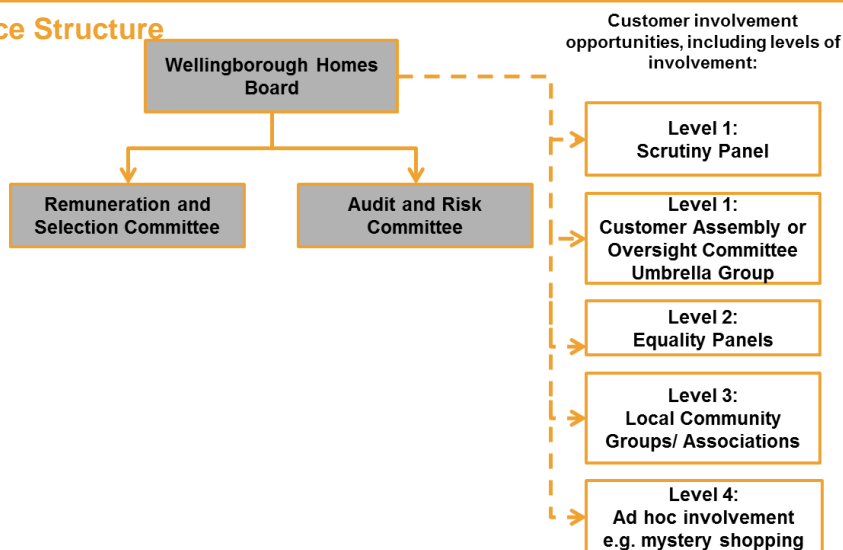
Figure 5: Activity and diversification
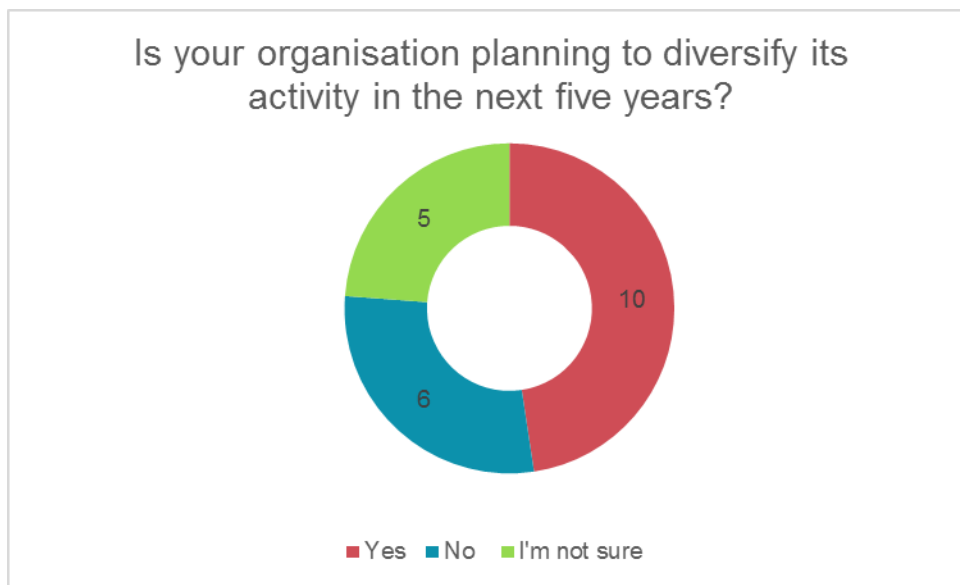
4.5.3. The majority surveyed (10 out of 21 respondents) said that diversification was something they were planning in the medium term. Of those who said no, all were already developing associations, with the majority also in the process of delivering one or more of the following products or services: homes for outright sale, a market rental product, care and supported housing, and/or student housing.

4.5.4. There is also a trend towards increasing complexity in the management of LSVT associations, with over 70% belonging to group structures; several of those we spoke to were part of a group, reflecting the more complex and diverse nature of their services.

4.5.5. As a consequence of these changes, it appears the focus on skills has become progressively more important. For all organisations in the sector it is a time of 'less easy money, more change and increasing risk' – many are therefore making changes to their governance arrangements to recognise and reflect this.

4.5.6. The NHF also asked if organisations had changed their board composition, and if so, how long after the stock transfer this was done. This is shown below in Figure 6.

Model 1: Wellingborough Homes

Wellingborough Homes was created in 2007 after an LSVT to own and manage Wellingborough Council's housing stock was completed. The original portfolio consisted of 4,484 housing units in and around Wellingborough.

In February 2015 the board approved the organisation's Corporate Plan which has outlines the organisation's ambitions for the future. This included setting a target to build four hundred homes over the next four years. This has now been revised to 500 units, including a 70/30 mix of rented and low cost home ownership. The latter has been supported by a new loan agreement with Barclays Bank. The association represents one of many organisations which have made recent changes to their board composition and approach to resident engagement.

Governance Structure

Customer involvement opportunities, including levels of involvement:

- **Wellingborough Homes Board**
  - **Remuneration and Selection Committee**
  - **Audit and Risk Committee**

- **Level 1: Scrutiny Panel**
- **Level 1: Customer Assembly or Oversight Committee Umbrella Group**
- **Level 2: Equality Panels**
- **Level 3: Local Community Groups/ Associations**
- **Level 4: Ad hoc involvement e.g. mystery shopping**

Board Membership

Currently 12 board members, comprising:
- 6 Independents
- 4 Councillors
- 2 Tenants.

The current board composition follows changes agreed as a result of stakeholder consultation. Prior to this there were 12 board members, of equal constituency membership:
- 4 Independents
- 4 Councillors
- 4 Tenants.

Refreshed approach to customer involvement

Wellingborough Homes has refreshed its approach to customer engagement and involvement, outlined in its Customer & Community Investment Strategy 2015-2019. It is one of six strategies which align with the overall mission and objectives set down in its Corporate Plan.

There are several levels of involvement which have been designed to enable customers to become involved at any level and to embed a "'bottom up' approach engaging with customers at a local or informal level which in turn will provide strong foundations for more formal involvement, scrutiny and co-regulation". Training and capacity building is also available and, where necessary, individual and group development plans will be introduced to support customers in their roles.

Figure 6: How long after transfer were changes made? (NHF, 2015)

Changes to board composition after transfer
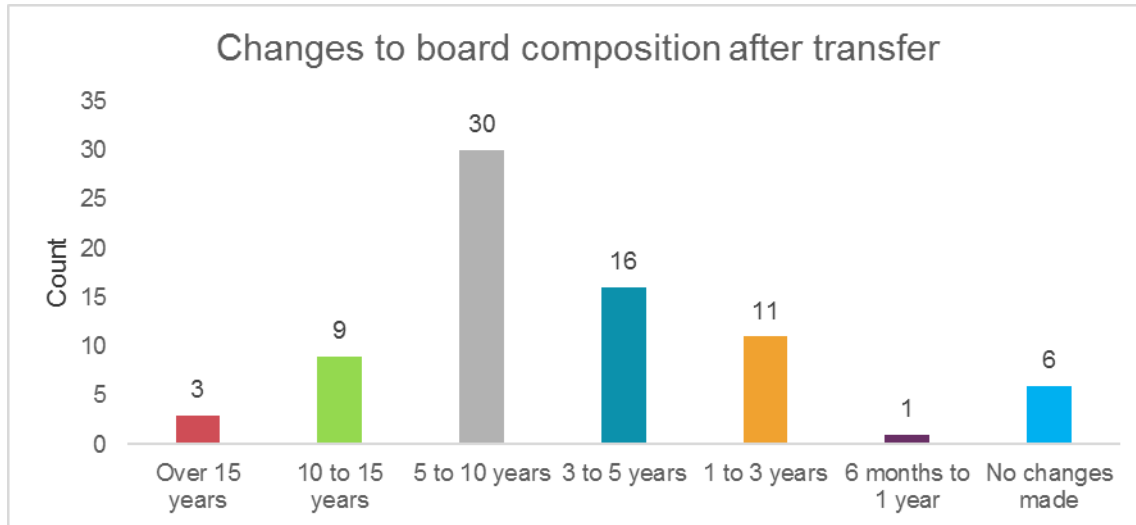
4.5.7. The majority of those which have made changes to their board composition have done so between 5-10 years after transfer, with only 6 out of 76 respondents stating they had made no changes to their board composition since transfer (NHF, 2015). Of those we spoke to, many expressed the view that the skills requirements of LSVT boards do not differ significantly compared to those on "traditional" HA boards, particularly after the delivery of the promises made at transfer. As this is a phase of maturity that many have entered, it appears that the trend towards skills-based boards will only continue.

4.5.8. Directly linked to the above, several organisations said that they faced increasing challenges in their governance as the standard constituency approach to LSVT board composition was, by nature, not conducive to providing them with the skills required to meet the changing needs of their business, as well as the requirements placed on them by the regulator.

4.5.9. As noted previously, for several organisations, existing tenants and local authority nominees on their boards had often been put forward through elective or nominated methods for board membership. The associations found they had little input into the process. A minority felt they had not faced any significant problems with this approach as they had been what they described as "lucky" to have received both strong tenants and councillors, or already had open dialogue with the council before appointments were made to ensure the right skills were present. Nevertheless, for many other organisations this procedure meant members who gained membership were not always those with the most appropriate skills, and this became more problematic when the demand for more specialist and technical skills, such as in finance, IT, and development, increased following diversification. In summary, although nominations can provide the skills required, this cannot be guaranteed.

4.5.10. In addition, some of these representatives were not fully aware of the expectations on them as board members, including their fiduciary duties as company directors.

4.5.11. Increasingly many associations have found that they must have access to a range of skills from each board member. Many felt that moving away from the standard constituency model was the primary solution to ensuring that the appropriate skills were present on the board to manage complex risk. Several organisations felt there were significant benefits in

ensuring that they had more direct control over determining the skills required on their boards.

4.5.12. A few participants expressed how the constituency model presented problems with conflicts of interest and ambiguity over roles and responsibilities. This has been underlined by previous research which has explained that the means by which many have come onto the board introduces a degree of uncertainty and "fuzziness" into their role, especially for tenants who are often seen as an element of the broader tenant empowerment agenda. Both tenant and councillor board members have been seen as 'representatives without the means to represent'; some have argued this has led to high initial turnover of constituent board members as members have struggled to manage these conflicting expectations.

4.5.13. Some of those we interviewed explained they had struggled to recruit tenant board members, and had found there had been low attendance and high turnover amongst nominees. Research by the Audit Commission found that a third of areas visited during their study had specific problems relating to local authority appointees, such as conflicts of interest, poor attendance rates, or those who were unable to act in accordance with their role as a board member. It has been found this can be particularly prominent among councillors as the LSVT has matured and interest fades, or because councillors have struggled to meet the commitments required, or found it difficult to make the time, for example, to read board papers.

4.5.14. These recruitment and retention issues undermine the effectiveness of board operation, although some organisations we spoke to highlighted how those from a purely 'private' sector background could also struggle with conflicts of interest.

Case study 1: Havebury Housing Partnership

History: Stock transfer established in 2002

Number of properties: 6,000

Location: Suffolk, Norfolk and Cambridgeshire

The journey:

- Havebury carried out a fundamental Governance review during 2014 and, as a result of that process, adopted a new Governance Framework at its AGM in September 2014.
- It has moved from the 'traditional' LSVT Governance model of three key constituencies, to a Framework driven by skills and experience.
- When making its changes Havebury carried out regular engagement with the local authority. The Chief Executive had systematic meetings with the operational leads for housing and the council Chief Executive. Other representatives also talked to all the borough councillors to involve them in the process.
- The organisation also worked hard to engage residents in the changes; tenants led on the consultation with other residents, which proved very effective.

The model:

A smaller strategic board (7-9 members) focussed on growth, funding and strategy supported by an operational board largely concerned with performance, quality and community engagement.

At least one tenant sits within each element of the Governance Framework.

The operational board now has stronger links to its tenants forum and performance and scrutiny panel. Its constitution states a representative of the tenants forum and/or scrutiny panel are non-voting members of the operational board. The latter includes both tenants and independents.

The skills required and possessed by each committee have been overlaid on the members' terms of office to inform robust succession planning.

Engagement with the local authority is focussed on ensuring meaningful day-to-day engagement, for example, by recently inviting the whole council to an event about Havebury's new development plans. As a consequence, they feel the council can challenge them more effectively as a truly independent body.
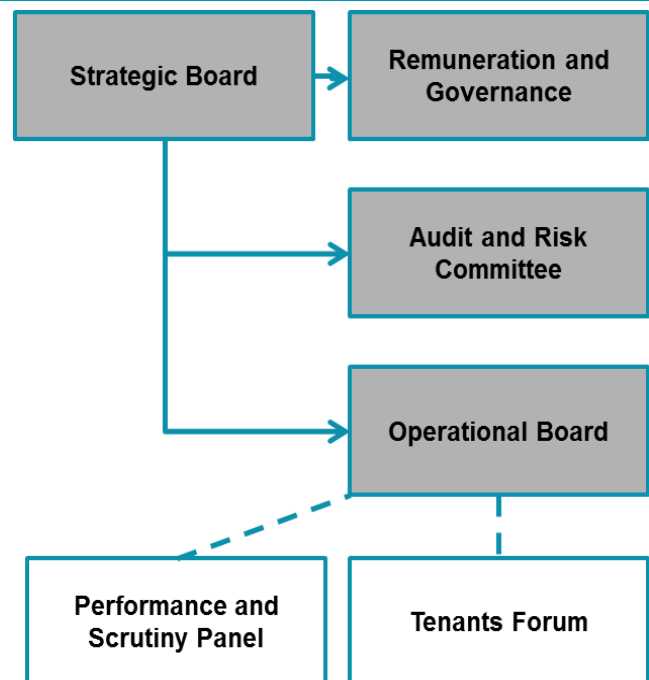
"The calibre on the strategic board now means the whole organisation has to raise its game… It was easier to carry on as we were, but we asked the questions and came out stronger."

Director of Resource and Company Secretary.

Learning points:

Havebury's approach provides them with a strategic board with the right skills to meet the needs of the organisation while strengthening their accountability to residents by incorporating representatives in each element of their framework. Havebury now benefits from more efficient decision-making and a more robust structure that is fit for the future.

4.6. The impact of changing the board's composition

4.6.1. It is clear that there are a range of approaches taken to board composition for maturing stock transfer organisations and it is for each Registered Provider to come to a view as to what is the best structure for the governance for their own organisation. However, it is clear that there is an increasing trend and need to adopt skills focussed governance as external pressure intensifies.

4.6.2. We asked what interviewees and members of the focus group thought worked well in their arrangements where they had changed their board composition. A selection of quotes is provided below.

- *"We have greater understanding and challenge than we had before…we were able to strengthen the range of skills and knowledge due to our conscious decision to recruit for skills… the board is now more strategic and more time is spent on emerging issues. Members are now active participants in the strategic running of the organisation, before there were more passive recipients."*
- *"Our board is now more skilled, it makes the Executives' jobs tougher, but that's the point of good governance."*
- *"We now have a good balance of sector experts and specific (commercial or other sector) skills/expertise."*
- *"There was not much emphasis on skills when the board was dependent on the three constituents…. The board is better than it was 18 months ago and is more hands on...*

4.6.3. Many of the skills required to meet future challenges were not seen as necessarily readily available within particular classes of board membership. This is not to say that the requisite skills were not present within these classes but, by limiting recruitment to the board to certain groups, it makes the process of identification and selection more difficult. Having made changes towards a more skills-based approach, those we spoke to have commented that this has improved their governance significantly. Through widening the pool of applicants and skills available to the board, organisations are better able to manage the increasing and multifaceted risks associated with their business plans.

4.7. Changes made: Executives on the board

4.7.1. In the private sector it is common for executive directors to be members of a board. However, within the social housing sector this is a relatively new phenomenon, seen mainly in larger Registered Providers. The move to include executives on the board is driven by the current period of rapid change in the social housing sector which means Registered Providers now have to operate in a more complex and challenging environment than previously.

4.7.2. A minority of the organisations we spoke to (6 out of 32) have chosen to change their composition by adding members of the executive on their leadership teams to their boards. This typically included one executive (the chief executive or managing director) but examples can also be found of organisations where there are two or three executives on the board.

The NHF (2015) found that 23 out of 76 organisations had this arrangement in place. In particular, the chief executive sitting on the board is a growing trend.

4.8. The impact of changing the board's composition – Executive membership

4.8.1. There are five positive outcomes that may stem from executive board membership:

- Collaborative relationship: Executive board membership can support the maintenance of an effective relationship and balance between the board and the executive. This sees the board's role as a collaborative director-level enterprise with the crucial dynamic being within the board between the non-executive, independent and executive directors.

- Fiduciary focus: Inclusion on the board may provide the chief executive with improved financial oversight of the organisation, and a keener appreciation of his/her responsibility for financial stewardship.

- Strategic thinking: Having executive board members may improve the strategic thinking of the board as a whole through allowing a productive discussion between executive and non-executive board members about the overall direction of travel of the organisation and future risks, rather than being caught up in the detail.

- Maximising talent: Having executives on the board is making the best use of the skills available to the organisation. The chief executive is the person with the most immediate and intimate knowledge of the operation, the person who executes day-to-day and strategic leadership, and the person most external stakeholders would identify with the organisation. These factors can be brought to board-level decision-making. However, it can be argued that if the executive has authority and credibility with the board it does not matter whether it has a vote or not – its voice and opinion is heard and recognised already.

- Senior managers' role: Having executive board members increases the strategic focus of the executive team and enables them to step away from day-to-day operational matters. In turn, this requires senior managers at the organisational level below the executive to take more control and ownership of operational matters.

4.8.2. Balancing the advantages outlined above, here are three difficulties that having executives on the board may present:

- Blurred lines of responsibility: An executive board member may blur the ownership of board agendas and board papers. If the executive director is unable to maintain distance and independence from papers, he/she may crowd out the wider board.

- Loss of independence in board perspective: If the executive board member acts as an advocate rather than maintaining an independence of view this may reduce the independence of the board as a whole, leading to 'group think' - this fails to provide sufficient challenge.

- Disengagement of chief executive from the organisation: While, as outlined above, executive board membership may bring the benefit of encouraging an increase in the strategic focus, and reduction of operational activity of the chief executive, this may lead to 'disengagement' from the staff of the organisation.

4.8.3. Although most LSVT organisations do not have executive board members, the trend towards executive membership represents a shift towards aligning governance arrangements more with the commercial sector. We have found through our own research that in the commercial sector boards are more evenly split between non-executive and executive members with a typical ratio being 6:4 or 5:3. For LSVT associations, executive membership on boards is likely to be accompanied by a move to a broader skills-based approach to composition, as it is likely there will be fewer spaces available for existing members of the board. Ensuring they have the appropriate skills, knowledge and experience is the more pressing priority. Overall, organisations will need to weigh up the advantages and challenges of this approach within their own contexts.

4.8.4. It is beneficial for the roles and responsibilities of executives who sit as members of the board to be clearly recognised as being different. This is primarily translated as different behaviours at board meetings. It is important that the executive members of the board recognise this and get guidance and support from non-executive board members on their contribution and whether or not they are truly fulfilling their role. When introducing executive board membership we suggest that the role of executives on the board is kept under review in the medium term.

4.9. Size and structure of governance arrangements: Moving to a smaller board

4.9.1. Across the sector there has been a trend towards reducing the size of boards, with the average size in 2015 being 10.3 compared to 11.5 in 2014. This trend has been likened to FTSE 350 company boards which have an average of 9.5 members.

4.9.2. In line with this wider sector trend, we found that many LSVTs have reduced the size of their boards to achieve greater efficiency in decision-making.

4.9.3. Historically, the constituency model has meant larger boards among LSVT associations. In the past, boards were usually 15 members before the NHF Code suggested a limit of 12. Of those who we spoke to, board size ranged from 8 to 12, with the average organisation having 10 members. The NHF's research (2015) also indicated an average of around 10 board members on LSVT boards, with many boards reducing in size from 15 to 12 and, in other instances, to 9.

4.9.4. We found that, by moving away from a purely constituency model based on a 'thirds' model, several felt enabled to have smaller, more efficient and effective board. For example, one interviewee whose organisation had a board of eight members said "Being smaller helps – there is no longer anywhere to hide in the boardroom. When we had a larger board some never really contributed to discussions and could get away with it. Now we're smaller and we meet in a smaller room – it all contributes to a better, more involved process."

4.9.5. It does however place increased pressure on board members and can represent a challenge where the traditional LSVT model remains and a skills-focussed approach to recruiting the constituencies is lacking. Moving to a smaller board was viewed positively by the majority of interviewees who had adopted it, but must be accompanied by a move to a more robust skills framework.

4.10. Group arrangements: The move to simpler and more agile governance structures

4.10.1. As noted above, there is a trend towards increasing complexity in the management of LSVT associations, with over 70% belonging to group structures.

4.10.2. Previous research has found that complex group structures developed in the late 1990s following a significant amount of merger and diversification activity. Mostly this occurred between larger associations, in particular those initially set up as stock transfer organisations. This is a trend that has led some to argue that the distinction between stock transfer and traditional associations has reduced, as both have become increasingly interwoven in groups.

4.10.3. It has been identified that the trend towards creating group structures has been in response to:

- The financial, regulatory and policy context (including changes to the tax system)
- Opportunities to diversify functionally and geographically
- The need to organise diverse activities.

4.10.4. Many of these groups were initially set up within complex arrangements. However, increasingly organisations are ensuring that their structures are simpler, through the amalgamation of group members with fewer committees and subsidiaries. The new regulatory framework is clear over the responsibility of parent companies to address concerns over the growing complexity of some group structures.

4.10.5. The recent HCA sponsored report 'With the benefit of hindsight', which reviewed the lessons learnt from a number of problem cases, underlined the need to drive out unnecessary complexity in group structures. It concluded that "simplicity, at least as an organising principle, lies behind most successful organisations." Case studies cited referenced problems with parent groups not having effective control over their subsidiaries and poor oversight over risky activities.

4.10.6. Several LSVTs have moved to collapse their group structures, and some organisations have moved to "common board structures" where the governance structure is simplified, but a more complex legal structure remains. Aster Group represents an example of an organisation who has taken such an approach to improve its governance framework (see page 32).

4.10.7. We spoke to two organisations which were exploring how to streamline their governance arrangements, as well as introducing a more skills-focussed approach, and to one which was already implementing this approach. Some organisations have met challenges when making changes to their structures due to lender consents for constitutional change and the threat of re-pricing loans. Some have had to develop more imaginative solutions to create a more streamlined approach.

4.10.8. Simpler more agile structures are often credited with enabling swifter decision-making and clearer delegated authorities. Removing complexity is a key way to ensure effective governance for LSVT and "traditional" associations alike.

Model 2: Aster Group

Aster Group has a turnover of almost £175m and manages more than 28,000 homes in the South and South West. The Group began with the formation of Sarsen Housing Association and has grown to incorporate a number of stock transfer associations. The latest activity occurred in 2012 when the organisation merged with Synergy Housing, which comprised three stock transfer organisations. As a result, Aster's corporate structure currently includes a number of operating companies, including:

- Aster Homes Limited – delivers new homes
- Aster Living Limited – focusses on care and support.
- Aster Property Limited - provides maintenance services across the Group.
- Aster Communities Limited - owns and manages 27,000 homes across central southern and south west England.
- Synergy Housing Limited - owns and manages more than 9,000 properties in Dorset, Hampshire and Wiltshire.
- Aster Treasury Plc - acts as a focus for treasury activity across the Group.

On 1 April 2015, Aster launched its new five-year Group Strategy, which focusses on developing more new homes, to rent, as well as for shared and private ownership.

Like many other housing providers operating within group structures, Aster has taken several steps to adapt and streamline its governance arrangements. This culminated in a far reaching review in 2013-14.

Governance Structure
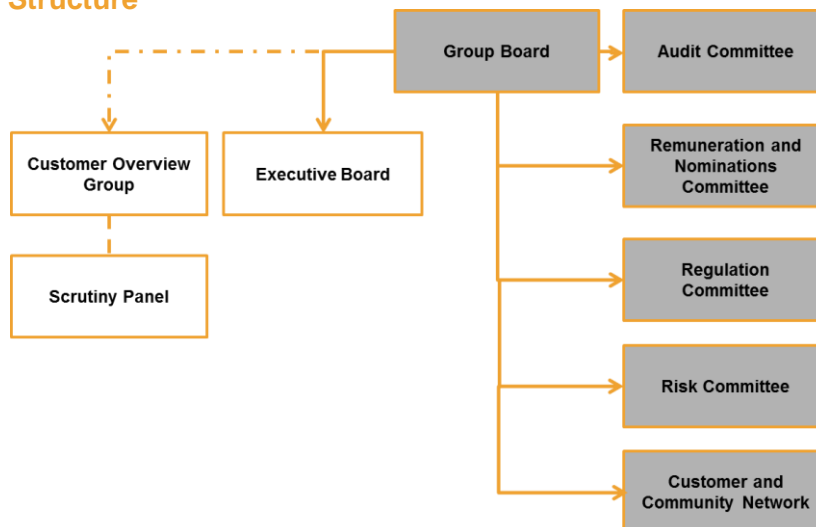
About the Governance Structure

- Aster simplified its structures by moving the boards of most of its operating companies under an umbrella. The legal entities remain, but the five boards have overlapping membership and meet as one group board. The group board has seven non-executive directors and up to three executive directors.
- The Aster Communities Board continues as a subsidiary board with membership of the three local authority nominees plus the Group board directors.
- To ensure the voice of the customer is heard, the board is supported by a Customer Overview Group, the Customer Scrutiny Panel and the Customer and Community Network consisting of independent members, Group Board directors and members of the Executive Board. Previously the Group had a number of customer boards in every area.
- The organisation has adopted the UK Corporate Governance Code.

4.11 Resident accountability, scrutiny and engagement

4.11.1. Fundamental to good governance is ensuring the board can 'hear the voice of the customer' so that both the strategic direction and the shaping of service delivery can reflect customer needs appropriately. It is fundamental that the 'voice' includes existing and potential customers.

4.11.2. Regulatory emphasis is now strongly on economic regulation and the HCA will only get involved in consumer regulation in cases of 'serious detriment'. Co-regulation places the responsibility for meeting regulatory standards on Registered Providers and for them, as landlords, to support tenants in shaping and scrutinising service delivery, and holding boards to account. For now, co-regulation continues to be a mainstay of the regulatory environment and, for that reason, as well as for good business reasons, customers (and their perspective) must be further integrated into the governance framework.

4.11.3. In our experience, there is often significant variety in the approach to customer involvement and engagement in the sector. Some organisations have moved away from formal resident scrutiny arrangements in their governance structures while others have retained and in some cases increased the power of resident panels and involvement in boards and committees.

4.11.4. Traditionally, for LSVT associations, tenant board membership was seen both as a means to enable that voice to be heard at the top level, as well as an arrangement that built in direct accountability within the governance structure. However, many have begun to challenge whether tenant representation on the board is the best means of hearing the voice of the customer. This is particularly because tenant board members are on the board in an 'independent' and not a representative capacity, which can cause problems for clarity over roles and responsibilities. This has been further reflected in the emphasis within the regulatory framework and code of governance, where elective or nomination mechanisms are now expected to be superseded by approaches that place due consideration on the skills and experience required to meet the needs of the board.

4.11.5. However, as organisations move towards skills-based frameworks and compositions, one of the potential weaknesses of these approaches is the possible loss of the customer voice, clear lines of sight for resident accountability, and oversight within governance mechanisms. We asked organisations which had moved towards a 'hybrid' or single status board how they continued to maintain accountability to their residents, and ensured the voice of the customer continues to be heard at a senior level.

4.11.6. The interviews, survey and focus group revealed a variety of delivery models, and a range of approaches to both the structure and content of resident scrutiny and involvement. This ranged from delegations within the governance framework to formal scrutiny structures. When changing the composition of their board, organisations were extremely mindful to enhance resident engagement, empowerment and scrutiny. We found that organisations have taken one or more of the following approaches:

- Scrutiny – Moving the business of resident engagement away from the board is becoming increasingly common within LSVTs, reflecting their evolving compositions. Where tenants are being retained on the board their role is more clearly focussed on and defined by directing the organisation and bringing specific skills, experience and knowledge. As a consequence, strategic engagement has tended to move from board level to independent scrutiny boards or panels. Groups who are empowered to commission reviews which

have formal and direct input into the board demonstrate good practice. For example, the chair of the scrutiny panel will attend board meetings to observe and will present findings from service reviews. Others have set up a steering panel of residents with specific all-tenant service groups reporting to the panel, e.g., a maintenance service interest group. The benefits of this approach can include service improvements, direct links to the board with the ability to provide independent challenge, and resident empowerment (for example, some associations provide their scrutiny function with responsibility for identified budgets); drawbacks can be the resource required to run these functions, as well as providing sufficient training to support members in their roles. Several organisations we spoke to have ensured learning and development was in place to support the effective running of these arrangements.

- Committees – Others have ensured residents remain part of the formal governance structure through the use and adaptation of operational boards or committees that are directly accountable to the board. These committees usually involve a combination of board members, co-optees and residents. This has the benefit of ensuring there is direct contact between the board and residents, and can support partnership working. Some have arranged that, in order to meet regulatory expectations and the needs of their business, the recruitment to these committees relies on a skills-based framework linked to clear terms of reference.

- Digital engagement – Some have gone beyond traditional practices developed from representation and physical presence on boards, committees and panels to include digital approaches to engagement. These can enable organisations to reach a more diverse pool of customers and allow customers to both shape emerging services and products, and access advice and services in an easy and flexible way. These approaches are currently being used to varying degrees. Some of the LSVTs we spoke to had made recent moves towards flatter or simpler structures, with online engagement seen as being particularly conducive to streamlining arrangements, and generating efficiencies, through mechanisms such as social media. Such mechanisms can, however, be devoid of any value or productive outputs if not properly maintained or structured.

- Customer insight – Traditionally a robust framework of key performance indicators linked to organisational strategy has enabled boards to retain oversight of critical areas of the business. However, this has tended to be more backward looking. More recently, several organisations across the sector are using customer insight and technology to enable boards to have sight of more sensitive and accurate intelligence about all customers (both current and future). This has enabled a more sophisticated approach to the understanding of customer requirements and behaviour. As one survey respondent said, "we have moved away from resident engagement via board membership and company membership to customer insight and influence via surveys, feedback, and social media sites etc." However, at present, these digital approaches tend to supplement rather than replace other forms of engagement, empowerment and scrutiny; looking to the future it is likely that their presence will increase.

4.12. Local authority accountability and engagement

4.12.1. The representation of local authorities on LSVT boards is rooted in their creation. As well as delivering their transfer promises, LSVTs are also expected to support the delivery of councils' overall vision for housing and accept nominations from waiting lists. As with tenant representation, it appears that, in general, many are moving local authority engagement away from the board.

4.12.2. To ensure the benefits of local authority relationships are not lost, some organisations have

invested significantly in maintaining strong and positive relationships with their local authority counterparts by adopting the following mechanisms:

- Formal engagement – Many have maintained and strengthened their engagement through the use of regular scheduled meetings between their executive team and their equivalents at the council to ensure on-going and effective communication. This has had the benefit or retaining strong links at a strategic level and enabling the facilitation of broader partnership working between the association and the council where strategic goals align.
- Governance - Others have retained council members in their formal governance arrangements, if not at a board level on a skills basis, then within the broader framework by reserving places on regional committees or panels.
- Informal arrangements – Some organisations have moved to informal engagement with their local authority, through the use of regular stakeholder surveys or by inviting wider council membership to briefing meetings over certain topics, such as the launch of a new development scheme. The latter can support relationships at both an officer and strategic level and also represents a shift to a more professional, business-like relationship.

4.12.3. In summary, with the increasing focus on skills and experience, moving the focus of resident engagement and local authority representation away from the board is becoming more common within LSVTs. To compensate for the loss of constituency membership at board level, arrangements are being maintained and strengthened either through direct links within the governance framework, or through wider involvement and methods, which enable organisations to reach a more diverse pool of customers and council representatives. There are a variety of mechanisms that can be utilised to inform board decision-making.

4.12.4. Moving towards skills-based frameworks and compositions does not mean the customer and local authority voice is lost. However, it must be maintained through a clear strategy to ensure active stakeholder relationship management continues at a senior level.

4.13. Board remuneration: Sector trends

4.13.1. The demands on and requirements of board members are increasing as they are expected to govern and control more complex and diverse organisations. These changes require a different skill set and many LSVTs are now looking to attract board members with experience from a wide range of backgrounds and professions, adapting their board composition accordingly to enable this change. Organisations are also looking to ensure that they can effectively deal with underperformance of boards or individual board members.

4.13.2. Housing associations in England have increasingly chosen to use remuneration as a tool for enabling good governance in a more complex environment. This has become more common as housing associations have sought to develop more professional boards and adopt approaches more in line with the commercial sector. Recent sector-wide research by the NHF (2014) found that out of 210 housing associations:

- 52% pay their board members. In 2009 just 35% associations paid their board members.
- The average pay for those chairs receiving remuneration is now £10,785 a year, £6,500 for a vice chair and £4,080 for a board member. In 2009 this was £8,500, £5,465 and £3,000 respectively.
- Of those paying board members, more than two-thirds said payments have had a positive impact on board performance.

- Remuneration is becoming the norm for all but the smallest housing associations.

4.13.3. The NHF no longer suggests how much organisations should pay by turnover. Instead, guidance includes information on pay in other sectors. The report also said housing association board pay is below that in many similar sectors, but there are other sectors, such as education, which do not pay board members.

4.13.4. Of those we spoke to during this research,18 (51%) had full or partial board pay in place. The NHF found in their survey that, in line with sector norms, the majority (58%) of LSVT respondents had full board pay in place. This is displayed below:

Figure 7: LSVT Board pay
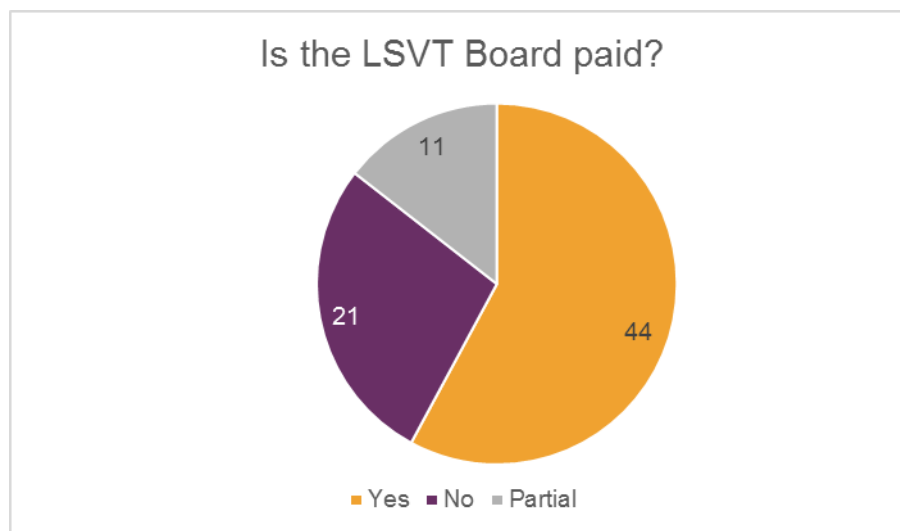
4.13.5. Several interviewees noted that board pay had enabled them to attract applicants with the right skills. Those who did not currently pay any or all of their board members provided comments to the NHF survey:

- *"The board do not believe that the quality and contribution of members will be improved by this use of tenants' money"*
- *"This has been reviewed a couple of times since stock transfer and board members are resolute in wishing to remaining voluntary rather than paid."*
- *"We are considering payment at the moment and have amended our articles to permit this. Awaiting Charity Commission approval."*
- *"Only the Chair of the board is paid - however we are finding it increasingly difficult to appoint to our board so will be looking at this next year."*
- *"Board have reviewed this recently as part of a wider governance review. Opted not to pay at this time however they are going to review in February 2016."*
- *"Board pay introduced December 2013 to encourage independent membership. Has caused tenant members problems with their benefits."*
- *"All independent non-execs are paid. We are in discussion with the Charity Commission to pay all non-execs."*

4.13.6. There are several advantages and disadvantages associated with the introduction of board

pay, as shown in Figure 8:

Figure 8: Arguments for and against board pay

Board pay
Arguments for

- the experience in England has been largely positive, with most organisations that have introduced it citing that it has been beneficial
- it will help attract skilled board members willing to carry more onerous responsibilities dealing with areas such as:
  - being more commercially focussed
  - able to operate in a riskier environment
  - understand more complex finance, development and other deals
- a changed emphasis from the regulator
- being better able to compete with organisations in other sectors for highly skilled board members
- remuneration will aid the retention of skilled members leading to consistency, increased effectiveness and reduced wastage on training and induction costs
- it will help to encourage a more diverse group and larger number of people to apply, creating a larger applicant pool
- introducing remuneration will help to attract individuals who are self-employed
- remuneration will make it easier to introduce a package of good governance measures
- remuneration will help to create a clearer framework to deal with board members who are not performing effectively
- remuneration will make it easier to achieve steady and planned renewal of the board

Board pay
Arguments against

- potentially can create 'two tiers' of board members– those that are paid and those that are not
- remuneration undermines the voluntary ethos of the social housing sector
- remuneration may damage public perceptions of the association particularly at a time where austerity is a dominant factor in many residents lives
- it may attract people who are 'in it for the money'
- it will undermine the clear boundary between the board and executives
- the money spent on remunerating board member positions could be better spent on other areas
- poor performing members will be rewarded for not doing a good job
- depending on the organisation's arrangements, introduction of pay can require Rule changes.

4.13.7. LSVT associations with a constituency-based board composition can face specific issues when introducing pay. In particular, there is a clause (Section 80 of Local Government Act 1972) that complicates the matter as to whether a councillor who sits on the board of a Registered Provider should be paid or not. The clause can be interpreted that if a councillor appointment to a board is made by the council (i.e. a nomination in which the board has no say) and the councillor is paid, they could be disqualified from local authority election and membership. There is a view that the clause is outdated; some have challenged it, or interpreted it differently. The decision is also affected by the principle of not making a double payment to an individual for completing their duties. The issue is not straightforward, and legal advice is normally required. Sometimes it can be addressed through a rule change.

4.13.8. For tenant board members in particular, the individual's entitlement to some welfare benefits may be affected if they sit on a board which provides payment. This cannot be solved by the individual affected simply refusing to accept the payment. It becomes problematic if it deters board membership among residents who are in receipt of benefits. Individuals may choose not to sit on a board of a housing association that pays its members because the income received may not cover the loss in benefits. As yet, a solution has not been found to this problem. Usually organisations work on a case-by-case basis with the individuals and the local benefits office to fully understand what impact payment will have.

4.13.9. Most LSVTs tend to be charitable. When deliberating whether to introduce board pay this is also something they need to consider. If they are not registered, charitable organisations will not need Charity Commission approval, but exempt charities should still comply with the spirit of Charity Commission guidance, CC11 on payment of trustees. If the organisation is a registered charity, Charity Commission approval will be required. One LSVT we spoke to opted to change their organisation type in order to introduce board pay as they were unable to secure outright approval from the Charity Commission. However, we are aware of several organisations obtaining Charity Commission consent to the payment of trustees, such as Herefordshire Housing, who explained they had received approval but were replacing the relevant wording in their Articles.

4.14. Board pay – key considerations

4.14.1. LSVT organisations which do not pay board members will need to openly debate and develop a consensus on whether they believe the benefits of introducing payment, and using it as a tool to help support improved governance, will outweigh potentially not being able to access a specific group of residents. Some factors organisations consider are:

- Avoiding any impact on members in receipt of benefits by not introducing board remuneration
- Limiting the impact on members in receipt of benefits by only remunerating specific board positions (e.g. chair and deputy chair)
- Recognising the wider benefits that board remuneration can bring, implement remuneration for all positions, dealing with individual issues on a case-by-case basis.

4.14.2. It appears that introducing board pay can support good governance in a more complex environment by supporting organisations in developing more professional boards; more than two-thirds have expressed the view that payments have had a positive impact on board performance (NHF, 2014)

4.14.3. In particular, it can help providers recruit skilled professionals; it enables them to better compete with organisations in other sectors for highly skilled board members. It can aid the retention of skilled members, and helps encourage a more diverse group and larger number of people to apply.

4.14.4. In summary, there appears to be increasing recognition that, in line with board member expectations, their positions should be remunerated. Payment appears to be a key way to ensure boards get the right mix of skills. In our view it should, however, be modest and in keeping with sector norms to reflect the purpose of organisations, many of which have charitable status.

4.15. Making the transition to skills based governance: learning points from the journey

4.15.1. For many LSVT associations, making significant revisions to their governance has involved moving to more skills-based arrangements and often includes changing board composition. This move carries both significant risks and potential benefits to the organisation. The common factors are listed below:

Figure 9: Changes to board composition/governance arrangements

Benefits	Risks
•Board members are recruited more due to the skills they offer rather than representing a particular category combined with skills •A more commercially focussed board is achieved •The board has a clearer strategic focus •Improved governance in an era of economic and financial viability assessments	•Adverse impact on the relationship with the local authority •Contributions of councillors and tenant board members undervalued •May not reflect the views of the tenants •Local community knowledge may be lost from the board

4.15.2. Having explored the changes many have recently made to their governance arrangements, we asked what organisations' experiences had been of the transition to their current approach, what barriers they had faced, and what they had learnt from the process.

### 4.16. Barriers to change:

4.16.1. During the research we found that some LSVTs have struggled to make changes and improvements to their governance arrangements.

4.16.2. One barrier cited was ensuring that the changes had resident buy-in. For example, one member of the focus group said "Fear! At times there seems to be a reluctance to upset powerful tenant [board] members (but this could be turned on its head to see good political understanding)." Another said: "Interestingly, it was harder to reduce the tenant share than the local authority share".

4.16.3. For many the 'golden share', which exists for some but not all LSVTs, was also seen as a significant barrier if the authority did not want to relinquish its influence. One survey respondent described how "we would like to reduce the size of the board but the local authority has refused to give up its places. Residents are happy to reduce." Another said that when making changes "we could only go at the pace the local politicians would allow in reducing the local authority membership".

4.16.4. For some, the 'golden share' arrangement means the local authority holds a nominal share which can out-vote all other shares in specified circumstances, such as agreeing Rule changes at an AGM. As one focus group attendee put it, rules on shareholding membership were not seen as having "the ability to adapt to the changing environment" when changes to governance were required and were stifled due to the council's golden share.

4.16.5. For some organisations seeking to become a group, an anomaly continues to exist within the consents regime. This is where organisations have been given the authority to adopt group structures while golden shares have remained in subsidiaries. This does not necessarily represent a barrier but, for some LSVTs, it means that the primacy of the parent is not always clear or consistent.

4.16.6. The NHF's recent survey of LSVT associations (2015) asked how accommodating local authorities had been to proposed changes:

Figure 10: Local Authority responses to proposed changes
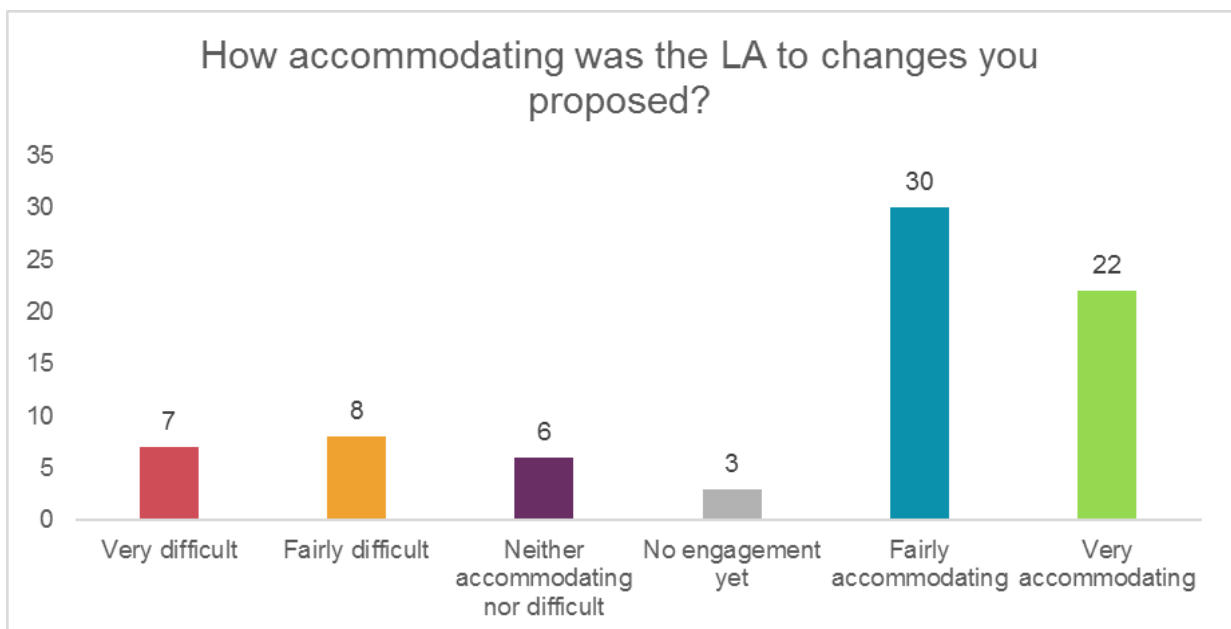
4.16.7. This shows the majority of LSVTs who have made changes felt their local authority was either 'fairly' or 'very accommodating' during the process. In line with this, many found the process relatively straightforward rather than confrontational. We explored the learning points from these experiences, particularly concerning stakeholder engagement, and how the learning might be applied by others.

4.17. Learning points: A business case for change

4.17.1. One clear theme that emerged from the interviews, survey and focus group was that making a clear and well-informed business case for change with the board was key to ensuring early buy-in from all stakeholders.

4.17.2. Several highlighted that, when considering options to improve their organisation's governance, they had included reference to best practice (both in and out of sector), the

performance of the association, the perceived benefits that could be gained, as well as the need to meet the expectations of the regulator. For many who had recently made changes, the latter was particularly seen as providing an impetus to adding appropriate skills to the board.

4.17.3. When reviewing the business case for change, we have found it is important for LSVTs to assess:

- Their future direction, priorities and ambitions, and what governance arrangements will best meet their needs
- The external environment, as examined earlier, and the increasing demands and pressures put upon board members
- The skills required to meet future challenges and whether these are available within particular classes of board membership
- The balance between different classes of membership
- The ability to attract and retain board members for particular classes of board membership
- The risks of what could happen if changes are not made, such as non-compliance with the Regulatory Framework or NHF Code
- The key benefits to all stakeholders if changes are made.

4.17.4. Several emphasised the advantages of using independent advice in both governance and audit reviews in helping move this process forward.

4.17.5. Some have also involved independent consultants to provide support and challenge throughout the process, and have created task and finish groups or working groups to add focus to the change process.

4.17.6. When developing their business cases, organisations have ensured that before embarking on their changes they have developed a robust supporting framework, including a skills matrix, role profiles and clear terms of reference, so they are aware of their skills requirements, and where gaps are. This has enabled them to achieve the right outcomes, tailored to their requirements.

4.18. Stakeholder engagement: the local authority

4.18.1. Significant changes to the LSVT governance arrangements, such as moving to a skills-based board, usually require local authority consultation and approval. This is because the changes normally involve making amendments to the organisation's Rules or constitution. As mentioned above, one of the key risks inmaking revisions to LSVT governance arrangements is the potential adverse impact on the relationship with the local authority.

4.18.2. Many explained how long-term relationship building and regular communication had supported their approach and enabled them to make their alterations. As one respondent put it "The organisation has a good relationship with the local authority and so the transition was smooth". Most organisations described how a positive working relationship with the council was embedded throughout their organisation down to officer level, such as through regular briefings and 'walkabouts' with ward members, which meant the council was aware of their positive impact in and around the local community. One interviewee said "there was

a case that the local authority didn't feel like they needed to have that much control over the LSVT as we were performing well."

4.18.3. However, for others who had more difficult relationships, change was often moderated and undertaken incrementally. Rushing ahead with change, they said, was more likely to be met with outright rejection. One organisation described their transition as "gradual, organic change.   We moved from a "them and us" mentality with the local authority….to positive, inclusive working relationships. We gained their trust over time." This has been underlined in the NHF survey which found the majority of board changes have occurred in stages, post-delivery of transfer promises.

4.18.4. We have found that a combination of the following approaches to stakeholder consultation and on-going engagement with local authorities appeared to work well for those who successfully made changes to their governance:

- Ensuring consultation and engagement occurs at the top table - regular formal meetings with the chief executive and chair of the board and their equivalents at the council were cited as beneficial by several participants. One interviewee explained that, "once we had the opportunity to make the reasons – they were supportive of it." As noted in the previous section, these formal arrangements were often maintained by organisations after making their changes.

- Securing a champion - Investing in relationships and discussions with representatives at the council often enabled organisations to gain a champion for their cause. One organisation described how "we spent time discussing with the elected mayor so [they] had faith in us as an organisation. As a consequence [they were] able to sell the changes to [their] group.   [Their] red line changed over time and we made sure we could accommodate [their] wishes." Another explained how "The councillors who had been on the board included the council's lead member for housing and have been a real support for us… the councillors have been championing our journey".

Case study: First Choice Homes Oldham

History: An ALMO for seven years then stock transferred in 2011.
Number of properties: 12,000 homes
Location: Oldham

The journey:

- FCHO has recently gone through a rule change, approved at its AGM in September 2015, to introduce a skills-based board.
- A whole board task and finish group approach was adopted supported by an external adviser chosen by the board. The group met every six weeks for a year, in addition to board meetings, and identified the essential skills requirements. The whole process was led by the chair and the CEO.
- All board members and the council were included in the transformation process and have had an input into deciding the proposed new board structure. The organisation has fully consulted with its customer forums and broader tenant base on the proposed governance changes.

The model:

The current board has twelve members: five tenants, four independents and three council nominees. The changes mean there will be one skills-based system of recruitment for members. This will allow the board to recruit the most appropriate members in a straightforward and streamlined way.

FCHO opted to maintain one council nominated member and one customer-nominated member on their board, who will operate within the skills-based framework.

FCHO will also continue its close working relationship with the council, continuing regular briefings with the Lead Member for Housing and Planning and the Leader of the opposition and/or Housing and Planning Shadow Member. It will also remain on the Oldham Leadership Board, the Health and Wellbeing Board and the Commissioning Cluster to deliver the Oldham Plan and other key policy developments. At a more operational level, FCHO also engages with ward members in 'walkabouts' and key matters which affect individual wards.

FCHO is developing new terms of reference for its customer congress to ensure customer influence and connectivity is strengthened.

FCHO BOARD

Audit & Risk Committee

Remuneration and Governance Committee

Customer Congress

Task & Finish
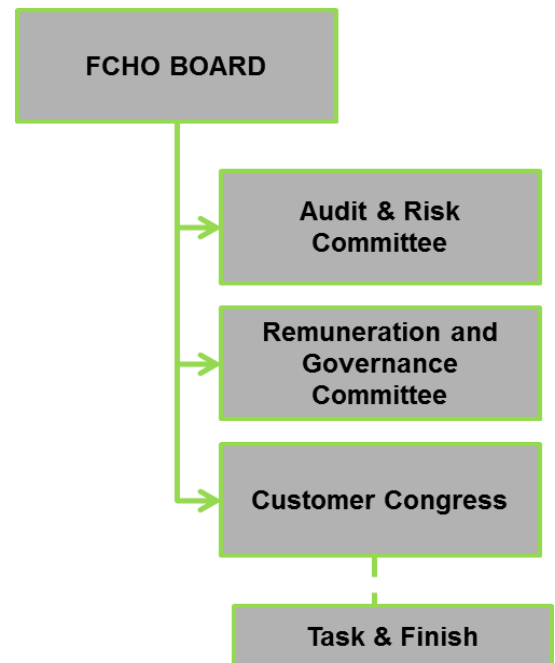
"The review took place over 12 months, considered the key appointments and essential skills needed…The process was led by the board and has been a fantastic journey."

Governance Manager

Learning points:

FCHO appointed a task and finish group which meant in-depth work was likely to be more successful when removed from the usual business of the board. FCHO opted to involve the whole board in the group, which ensured that they were empowered to own and direct the changes and transition from beginning to end. The whole process was led by the chair and the CEO; their leadership was a critical success factor. The changes provide the organisation with robust control, forward thinking and effective risk management while maintaining accountability to key stakeholders.

When making changes to their governance, it is also important for organisations (for whom it is applicable) to consider whether they should remove the council's 'golden share'. Of those we spoke to, some changed their composition without opting to remove the council's golden share, as they felt it would be easier to do so, whereas others took the opportunity to review it during the process.

4.18.6. The recent NHF survey found that associations are split when it comes to deciding whether they would negotiate away the golden share. It therefore appears that dispensing with the golden share may not be necessary to achieving initial improvements in governance if wider buy-in can be secured without removing it.

4.19. Stakeholder engagement: tenants

4.19.1. As outlined at the beginning of this section, one of the key risks to changing an LSVT board composition to a skills-based arrangement is that the contributions of tenant board members may be seen to be undervalued, although this is not the intention.

4.19.2. To minimise this, several organisations ensured their tenants were involved in leading the consultation on changing governance arrangements. At one association, tenant board members directed the wider consultation with other tenants. This included board members creating a video for their website, signposting the changes via social media, as well as through traditional communication methods.

4.19.3. Others provided their tenant board members and existing 'involved' residents with the opportunity to inform and lead on the creation of new or refreshed approaches to resident involvement. This ensured effective engagement and empowerment.

4.19.4. Several have opted to recruit internally when making changes to their board composition and have included items such as 'community knowledge' as a skill requirement. This has sometimes led to the appointment of board members who are also tenants; it is a clear demonstration that tenant board members with the essential skills are valued and retained.

4.20. Reviewing progress and embedding flexibility

4.20.1. Some organisations have opted to ensure they carry out a governance effectiveness review 12 months on from making their changes. They found that, outlining this during consultation, the changes could be more readily accepted. It also provides the means to make tweaks or improvements in the short to medium term.

4.20.2. Several have also taken steps to refresh their skill matrix regularly, adopting a more rigorous approach to their skills and performance reviews. They have then embedded these methods by incorporating them in key governance documentation such as: training and succession plans, terms of reference, recruitment packs, and their appraisal processes. Some have also introduced smarter approaches to the use of co-optees by adopting them onto specialist task and finish groups. This allows the board to respond to change and have access to specialist skills as required.

4.20.3. Others have said that, for new LSVTs where a constituency board has been enacted, it

would be beneficial to include a review phase within the transfer agreement to allow flexibility for the future. We have been told that some newer LSVTs have already incorporated this type of arrangement. One respondent described how *"It would be easier to make the kind of changes that we have, if there had been a discussion at the outset about the rationale for local authority membership and the role of customers on the board. This might have enabled a non-confrontational pathway to be developed to enable the organisation to emerge from its LSVT history."*

4.20.4. Others said they wished they had made their changes sooner. One said "There is no such thing as a "sacred cow" and we should probably have made the decision earlier."

4.20.5. When making revisions to Rules, organisations have also built in flexibility to adapt to possible future changes, such as the introduction of board pay.

4.20.6. In summary, remaining flexible and adaptable has supported organisations in having more robust governing instruments and structures.

5 | Conclusions

5.1.1. Despite the on-going changes and increasing demands faced by LSVT associations in governing their organisations, there has been little recent research and guidance provided in this area. Throughout this report we have addressed a range of research questions, including:

- With increasing pressure on associations, what governance approaches and models have been recently adopted to ensure LSVT organisations' governance is fit for purpose now and for the future?

- What are the strengths and limitations of these different approaches, and how have organisations maintained accountability to their key stakeholders?

- What can be learnt from best practice and the journey of those who have made changes to strengthen their governance that has involved changing the relationship with their sponsor local authority and their tenants?

5.1.2. This research comes at a time when many LSVT associations are looking to respond appropriately to the HCA's revised Regulatory Requirements and NHF Code of Governance (2015). They also face increasing challenges presented by the external operating environment. Many of these challenges have stretched the capacity, viability and adequacy of organisations' governance to manage the more complex risks associated with their increasing diversification. Although these circumstances are not specific to LSVTs and are faced by all housing associations, the nature of LSVTs, and the constituency model upon which they were founded, means that managing these increasing pressures requires a wider set of considerations.

5.1.3. It is evident from the research findings that several LSVT organisations have adapted to changing circumstances, as they develop their role and purpose beyond the initial promises made to tenants at the point of transfer. We have established that several LSVT associations which have retained the 'standard' constituency model have faced specific challenges in their governance arrangements. As a consequence, many have recently reviewed their approaches to nominations to the board by moving to a skills focus in recruiting to their constituent groups. This has been in response to the NHF and Regulatory guidance, but also because many LSVT organisations had already struggled to achieve effective governance when board members who did not always have the requisite skills to govern the organisation had been put forward through traditional routes.

5.1.4. For many the full impact of making changes to these arrangements has yet to be realised as there has not yet been a turnover of existing members. Moreover, while this is expected to improve their governance, it is unlikely the approach will fully address the weaknesses which can be associated with the constituency model: an insufficient pool of skills and experience within constituent groups to meet the organisation's evolving needs.

5.1.5. The trend has been towards LSVT associations comprehensively reviewing their governance arrangements to ensure their governance remains fit for purpose. We found many have already made changes such as streamlining their structures to create more agile arrangements, as well as introducing board pay to attract a wider variety of applicants.

Whereas traditionally LSVT boards have been larger than their 'traditional' counterparts, many have sought to reduce the size of their board, in line with wider sector trends. Several have claimed this has provided them with more efficient decision-making. However this change has also brought increasing pressure to ensure the right breadth of skills are present around the board table.

5.1.6. A broader trend within the LSVT sector has been for organisations to adapt their board composition to move away from the standard LSVT constituency model to include more independents, recruited purely on a skills basis, by reducing the presence of either nominated tenants and/or councillors, but still reserving a minimum number of places for them. Others have moved to a single status model with a purely skills-based approach so there is no longer any constituency nomination to the board. The NHF survey also indicates that LSVT organisations are undoubtedly moving their overall structures and compositions towards more streamlined and skills based-boards.

5.1.7. It is clear that there is a range of approaches taken to board composition for maturing stock transfer organisations and it is for each organisation to decide what is the best structure for their governance. Our findings show that many of the skills required to meet future challenges were not seen as necessarily readily and easily available within particular classes of board membership. This is not to say that the requisite skills are not present within the traditional LSVT classes of board membership, but by limiting the recruitment to the board to certain groups it does make the process of identification and selection more challenging. Those LSVTs we spoke to felt making changes to board composition was the primary solution to enable organisations to manage more complex risk.

5.1.8. Having made changes towards a more skills-based approach, those we have spoken to have indicated that this has improved their governance significantly. It appears to be one of the most effective mechanisms to support organisations in having governance fit for the future.

5.1.9. However, when making such changes it is essential that the benefits of the constituency model, such as maintaining a customer-focussed ethos, are not lost and that existing relationships are not devalued.

5.1.10. We have found that some organisations are taking steps to ensure these benefits are maintained and enhanced by reviewing other relevant arrangements, such as resident involvement structures, when they change their board composition. This is an approach that should be adopted by all organisations making significant changes to their governance. There are different ways in which LSVTs can be accountable to their local authority stakeholders and tenants instead of, or in addition to, constituency board membership. For some, this has been through maintaining some constituency members on the board either through a wholly skills-based approach where they are appointed purely on merit, or by reserving places for these groups and balancing this by applying a more skills-focussed approach to recruitment. Some included qualities such as 'community knowledge' as a skill requirement which has sometimes led to the appointment of board members who are also tenants. This is a clear demonstration that tenant board members who have the essential skills are valued and retained.

5.1.11. For others, relationships have been maintained and often strengthened by preserving tenant and/or local authority membership on either panels or committees that report directly into the
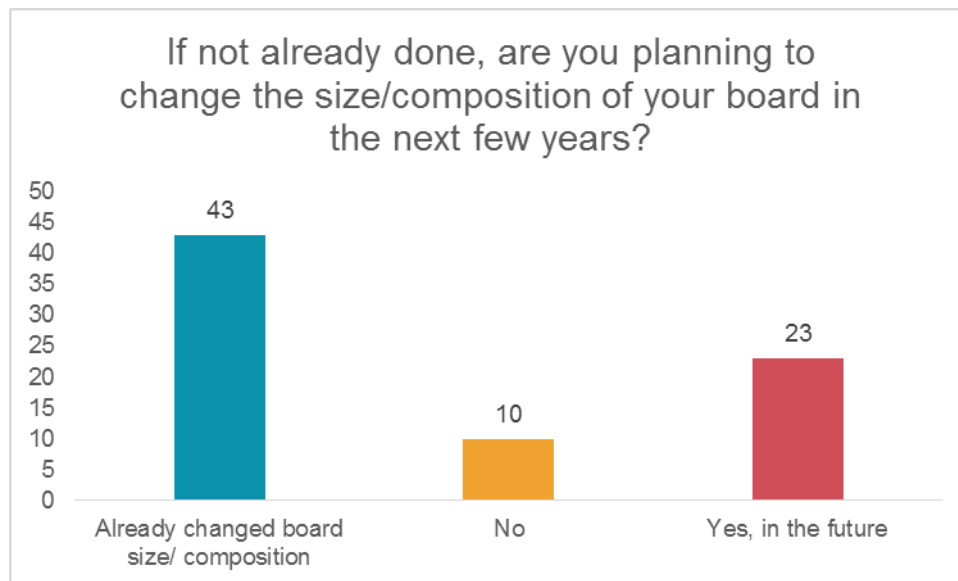
governance framework, or through other means of more regular, informal engagement, such as stakeholder surveys, partnership working, briefings or digital engagement. All those involved underlined the continued importance of upholding these relationships.

5.1.12. Many of those who have made the journey to making significant revisions to their arrangements have done so with relative ease, though meeting some challenges along the way. In particular, the 'golden share', which exists for some but not all LSVTs, was seen as a significant barrier if the authority did not want to relinquish its influence over the association. In addition, an anomaly continues to exist in some group structures where golden shares have remained in subsidiaries. For several LSVTs this remains a significant obstacle and can mean that, in these group structures, the primacy of the parent is not clear or consistent. Tthis is something that should be addressed.

5.1.13. Having explored the learning points from these experiences, particularly concerning stakeholder engagement. We have identified that there is much that can be learned by others looking to make changes:

- Making a clear and well informed business case for change with the board is key to ensuring early buy-in from all stakeholders.
- Understanding clearly what skills are required by the organisation and which ones are already available. This relies on organisations having access to a robust and up-to-date supporting framework, to include essentials such as a skills matrix, terms of reference and job descriptions/person specifications.
- Creating task and finish groups or working groups to add focus to the process of taking forward changes, and ensuring the board receives regular communication from such groups so they are able to lead on changes.
- Long-term relationship building and regular communication with the local authority.
- Ensuring consultation and engagement occurs at the top table, helping the organisation secure a champion from within the local authority.
- Ensuring tenant board members lead the changes, using their knowledge to create effective consultation and providing them with the opportunity to inform and lead on the creation of new or refreshed approaches to resident involvement.
- Recruiting internally, first having made changes to board composition, so that tenant and local authority board members who have the essential skills are valued and retained.
- Reviewing effectiveness twelve months on from making changes to support continuous improvement, and adopting a pro-active approach to ensure built-in flexibility in adapting to possible future changes, such as the introduction of board pay.

5.2. Looking to the future: what next for LSVT governance?

5.2.1. It is clear that within the housing sector and as a whole there is a greater emphasis on board skills. Within the LSVT sector there has been and continues to be a move towards more skills-focussed governance arrangements. The NHF has identified that many have made changes to the size and composition of their boards in the past and several are looking to make further changes in the future (Figure 11).

Figure 11: Plans to change the board

If not already done, are you planning to change the size/composition of your board in the next few years?

Category	Value
Already changed board size/ composition	43
No	10
Yes, in the future	23

5.2.2. As the regulator's expectations increase and there continue to be increasing challenges presented by the external operating environment, it is likely that organisations will have to adapt by adopting more robust and intensive skills-focussed approaches that will support their ambitions, now and into the future. To support future LSVTs in this endeavour we advise that government places the required emphasis on the need for adequate skills when transfer organisations are created. At present the current transfer manual, which is in effect until March 2016, refers to the Regulatory Framework from April 2012, and only refers to the need for a group structure and not a single centralised organisation, "to meet the requirements of the regulatory framework with particular reference to the governance element within the Governance and Financial Viability Standard". This should be revised to reflect current expectations and demands on all providers, as well as good practice in governance more widely.

5.2.3. For some organisations, barriers exist that are beyond their control. These make it difficult for them to maximise the benefits of these changes. Several may find their current approach will not meet their business needs in the future. To continue to remain effective, organisations have recognised that they need to remain flexible by adapting to their surroundings. Those who are modelling best practice have ensured their approach and processes remain flexible and agile, in particular, by keeping their skills and expertise under regular review and by adopting arrangements that ensure those skills remain up-to-date and relevant.

5.2.4. Now is the time to act to ensure that LSVTs have access to the right depth of skills, knowledge and experience. As time goes on, it is apparent that those who do not adjust to the challenges in such a way are likely to find the capacity, viability and adequacy of their organisations' governance threatened and their effectiveness and resilience undermined.

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