The Financial Standard
October 2019

The Financial Standard and Assessment Framework for the Regulation of Approved Housing Bodies in Ireland
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Legal Disclaimer

The Financial Standard is issued by the Regulation Office as part of the regulatory framework for the AHB Sector and to support and assist in building the capacity of AHBs to deliver excellent tenant services and to manage stock efficiently and effectively.

It is not, nor is it intended to be, a definitive statement of the law and it does not constitute legal advice. AHBs are recommended to obtain their own legal advice where necessary. The Regulation Office accepts no responsibility or liability for any errors, inaccuracies or omissions in the Financial Standard.
Chapter 1

Introduction to the Standard

1.1 About this Standard

Since the publication of the original Financial Standard in 2015, the Regulation Office has gained significant insights and a deeper understanding of the sector and the diversity within it. This revised Financial Standard has been developed with these key learnings in mind.

The Financial Standard remains underpinned by the guiding principles of the Voluntary Regulation Code, published in 2013, which included proportionality, accountability and transparency. In line with risk-based regulation, there are additional requirements depending on the size, scale, development plans, debt profiles and organisational risks of an individual AHB.

The Financial Standard is a key element of the overall Regulatory Framework, outlining what is expected of AHBs regarding their financial management, financial controls, financial viability, financial governance and risk management. It also outlines key requirements relating to financial forecasting and notifiable events.

The Government has invested and continues to invest in AHBs to provide social housing for those who need it. Therefore, it is important that we ensure that this investment is managed effectively and that the social housing provided is available well into the future.

The way that social housing is being delivered continues to change. The AHB sector is becoming less reliant on capital grants from the Government and increasingly accessing loan financing to support the development of social and affordable housing. This change makes more effective use of monies and enables the delivery of more homes. It also requires AHBs to modify how they do business and to take on more risk. Therefore, it is important this is managed effectively. Regulation and the Financial Standard provide a framework for financial management, oversight, governance and planning. This is critical in the context of ensuring sustainable long-term delivery of social housing.

The overall purpose of the Standard is to protect existing assets and tenants, and to build the confidence of key funders to invest in social housing.

The Standard aims to recognise the diversity within the social housing sector, acknowledging key differences in both capital and revenue funding streams, and the complexities of AHB’s balance sheets and debt profiles.

The Regulation Office seeks assurance from AHBs that they have robust systems in place to ensure financial viability, good financial governance and proper financial oversight. AHBs are required to demonstrate that they have the appropriate internal controls, segregation of duties, board skills and expertise, risk management and financial planning.

The Standard outlines what is expected of AHBs in relation to financial viability in the short, medium and long-term. Financial viability is crucial to ensure the safeguarding of social housing assets into the future and to protect the interests of tenants at all times.

AHBs are required to manage their resources and risks effectively to ensure their viability is maintained at all times, and that homes are protected in the interests of their tenants and are not put at undue risk. The Standard sets out the minimum regulatory requirements an AHB must meet. It is expected, however, that large and growth AHBs will go beyond these expectations in fulfilling key objectives.

The Financial Standard will be reviewed and revised, at appropriate intervals, to ensure it remains aligned with the changing operational, economic and legislative environment.
1.2 Proportionality

A ‘one size fits all’ approach to regulation is not appropriate, due to the range and diversity of the AHB sector. The assessment of AHBs against the Financial Standard will be both proportionate and risk-based. This means that the Regulation Office will take into account the size, scale and level of risk of the organisation in applying the Standard.

Larger AHBs and AHBs with significant development plans will be subject to more rigorous regulation. A three-tier system is used to categorise AHBs for regulatory purposes: Tier 1 refers to smaller AHBs, Tier 2 to medium sized AHBs, and Tier 3 refers to larger AHBs. The table below gives a summary of the tier categorisation.

### AHB Tier Classification

<table>
<thead>
<tr>
<th>Tier</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tier 1</strong></td>
<td>0-50 units with no development plans or development plans that keep the total under 50 units.</td>
</tr>
<tr>
<td><strong>Tier 2</strong></td>
<td>50-300 units or development plans that keep the total under 300 units, or the use of loan finance for development.</td>
</tr>
<tr>
<td><strong>Tier 3</strong></td>
<td>&gt;300 units or sizeable development plans, including the use of loan finance for development.</td>
</tr>
</tbody>
</table>

Additionally, the Regulation Office has adopted a financial matrix approach to financial forecasting requirements for AHBs. This is aligned to risk-based regulation. All AHBs are required to provide assurances and evidence that they can meet a minimum level of financial controls, governance and financial management. However, in line with risk-based regulation it was necessary to ascertain key financial forecasting requirements based on current units, planned unit development and loan financing. Further detail is provided under Section 4: Financial Forecasting Requirements.

1.3 About ‘Comply or Explain’

The ‘comply or explain’ approach is widely used within regulation. This requires AHBs either to comply with the Financial Standard or to explain what alternative arrangements are in place where the organisation does not comply. It recognises and acknowledges that there may be reasons for non-compliance, such as the local context or individual circumstances in which the organisation is working.

A departure from a requirement, therefore, does not necessarily constitute a breach of the Standard, if there is evidence that the organisation has given proper consideration as to why such a departure is necessary and how the requirement is observed through other means.

In order for ‘comply or explain’ to be effective, AHBs must be open and transparent about their reasoning in areas where the organisation does not comply. The Regulation Office will exercise reasonable judgement about the validity of such an explanation, and whether failure to comply with a particular provision (or set of provisions) constitutes non-compliance with, or an acceptable deviation from the Standard.
Chapter 2

Objectives

2.1 Financial Standard Background

The overall aim of the Financial Standard is to define and set a standard for financial management, oversight and viability for the sector.

The Financial Standard promotes a set of requirements for financial management, financial control, oversight, financial viability, risk management and financial forecasting for the AHB sector. This set of requirements ensures that the providers of social housing are financially viable and properly managed while performing their functions effectively, efficiently and economically to support the provision of social housing. Financial viability is crucial to ensure that social housing assets are safeguarded into the future and, ultimately, to protect the long-term interest of their tenants.

Accordingly, this Financial Standard has seven key objectives

1. To detail the financial management, governance and control disciplines which support AHBs in delivering their services and ensuring appropriate oversight

2. To ensure that all AHBs have appropriate assurance frameworks including financial management, controls, reporting and monitoring in place

3. To safeguard short, medium and long-term viability of housing assets in the interests of tenants and service users

4. To ensure that all AHBs are financially viable, properly managed and perform their functions effectively while providing value for money

5. To identify warning signs of emerging risks which may cause financial difficulties for AHBs and potentially put assets and tenants at risk

6. To establish and monitor key financial ratios such as current ratios, interest cover, gearing etc. which should be met or maintained where borrowings have been undertaken

7. To enable the Regulation Office to produce aggregated data for the sector
Chapter 3

The Financial Standard Requirements

The Financial Standard requires that AHBs manage their resources and risks effectively, to ensure their viability is maintained. With requirements covering financial management, controls, governance and oversight the Standard seeks to protect existing social housing assets and tenants and make sure these are not put at undue risk.

3.1 General Principles and Requirements

AHBs are required to demonstrate effective financial governance and sound financial management practices, which are proportionate to their organisation. AHBs should be able to demonstrate and evidence their financial viability, by being able to generate sufficient income to meet operating payments and debt commitments as they fall due, while maintaining service levels.

Organisations should have effective oversight, controls and monitoring in place which provide assurance regarding viability.

AHBs are required to have risk management frameworks appropriate to their size, scale, development plans and debt profiles and mechanisms in place to monitor key risks to their organisations.

3.2 Financial Viability, Management and Controls

Financial Viability

The Financial Standard requires that AHBs be financially viable and have adequate resources to meet short, medium and long-term business and financial commitments.

Through the regulatory assessment process, the Regulation Office seeks to gain an understanding of the risks to which AHBs are exposed. The Regulation Office seeks assurances that organisations’ governance arrangements are effective in helping to mitigate key risks.

Short-Term Viability

In assessing short-term viability, the Regulation Office establishes whether an AHB has access to sufficient funds as required. This is assessed by monitoring operating surplus, liquidity and cashflow at a minimum. AHBs should be able to demonstrate:

- Positive cashflow from operations (it is expected each AHB should be cash-generative and it is a cause for concern if this is marginal or negative)
- Sources of income, including level of reliance on fundraising
- Liquidity – i.e. measuring the funds readily available to meet current liabilities

Housing Agency Regulation Office
Uses of cash as per cashflow statements
- Whether there is a reliance on an overdraft
- Interest cover (where applicable) to examine how easily the AHB can meet interest payments on its debt commitments

Long-Term Viability
The long-term viability of asset-based organisations hinges on the balance of assets and liabilities, the existence of realisable positive value at any point in the future and the continued generation of cash surpluses over the long-term. AHBs should be able to demonstrate over the longer term:
- Positive cashflow from operations
- Profitability of the AHB, with particular focus on operating margins and financial efficiency
- Level of debt to equity (as applicable)
- Sinking fund provision and the capacity of AHBs to meet future maintenance needs which is fundamental to their long-term viability
- Stock Condition Survey results
- Ability to meet operating payments and debt commitments as they fall due

Financial Planning and Budgeting
The level and detail of financial plans is dependent on the size, scale and level of operations of AHBs. However, all AHBs should be able to demonstrate some form of financial planning. At a minimum AHBs should have budgets in place for the future planning period providing the organisation with projected income and expenditure for the year(s) ahead. As budgets are based on assumptions, AHBs should ensure that they are clear about the underlying assumptions of any financial plan/budget.

All AHBs should ensure they have a mechanism for monitoring and evaluating their financial performance against plans. AHBs should ensure that actual income and expenditure is compared with projected income and expenditure and any material variances should be discussed and examined by the Board.

For larger and growth AHBs detailed financial forecasting is required. These requirements are outlined later in the Standard.

Financial Management and Controls
All AHBs are required to ensure that they have appropriate financial management and financial controls in place. The onus is on the Board to decide on appropriate financial controls that mirror the size, scale and complexity of the organisation.

Board members are collectively responsible for oversight of financial controls and should ensure that the organisation has proportionate and effective financial controls aligned to the organisation’s objectives and activities. The Board should delegate the responsibility of the day-to-day operations of financial controls to the executive, as appropriate. The Regulation Office expects AHBs to be able to provide assurance and evidence relating to their approach to internal financial controls, where there is any departure from good practice.

The Board should ensure there are effective arrangements in place for preparing management and audited accounts, including assets and liabilities, income and expenditure, cashflow statements and debt profiles.

AHBs should ensure they have appropriate financial management in place to:
- Safeguard their assets
- Administer the organisation’s financial affairs in a pro-active way
- Identify and manage risk
- Prevent and detect potential fraud
- Provide for appropriate monitoring and reporting structures for key financials both internally and externally

AHBs should establish formal and transparent arrangements for considering how the organisation ensures financial viability, maintains a system of internal controls, manages risk and maintains an appropriate relationship with both internal and external auditors.

Financial controls should include due consideration of any conditions or requirements detailed within capital grant funding, revenue funding, loan financing agreements and associated covenants, as applicable.

AHBs are expected to have effective financial management and controls relating to income, expenditure, banking (including payments and loans), assets and investments, monitoring arrangements, housing assets and liabilities and cashflow profiles.
All AHBs are required to:

- Produce annual accounts which have been externally audited
- Prepare annual budgets
- Keep proper accounting records
- Have adequate systems of control
- Prepare cash flow projections to ensure the availability of sufficient funds to pay for operating costs, repairs and maintenance, and any debt repayment as they fall due
- Provide a full set of audited financial statements to the Regulation Office, for each financial year end, together with an auditor’s management letter.

Boards of AHBs have a responsibility to satisfy themselves and provide assurance to the Regulation Office that they have considered key financial requirements appropriately in relation to their own external and internal operating environment, and that they are satisfied they will comply with regulatory requirements now and in the foreseeable future.

Smaller AHBs should familiarise themselves with the Charities Regulatory Authority guidance on ‘Internal Financial Control Guidelines for Charities’.

3.3 Financial Governance and Oversight

Financial Governance

The Board is responsible and accountable for the oversight and monitoring of the organisation’s financial viability and economic effectiveness. It should ensure proportionate and effective practice regarding transparency, reporting, communications, audit, and managing risks through control systems and financial management.

The Board should be assured that there are proportionate and effective systems for financial management and financial controls. A failure to maintain an effective framework of internal controls can compromise an organisation’s ability to meet its financial obligations. The Regulation Office expects that Boards have the appropriate skills, expertise and competencies appropriate to the size, scale and risk profile of the organisation.

AHBs should have clear segregation of duties and reporting lines between the Board and executive management, as applicable. The Board should take ultimate responsibility for the AHB’s strategic direction, its policies and performance, while the executive management implement these policies on an operational level. The quality of the relationship between the Board and management has an important impact on the operational effectiveness of an AHB.

AHBs should take reasonable steps to ensure that any activities they undertake do not place social housing assets, tenants or their own financial viability at undue risk.

The Board is responsible for ensuring that there are proportionate and effective systems of internal control including financial, operational and compliance controls. The Board should review the effectiveness of these systems regularly. The Board should have systems in place that provides assurance to it regarding organisational performance and data integrity.

1. Internal Financial Controls Guidelines for Charities, Charities Regulator
2. Please see The Governance Standard located at www.housingagency.ie/regulation/publications
Audit and Risk Committees
Larger and developing AHBs must have a committee with responsibility for audit and risk. The roles and responsibilities of the Audit and Risk Committee should be clearly documented in formal terms of reference. The Board should assure themselves of the effectiveness of the AHB’s internal controls and risk management systems through their Audit and Risk Committee3.

The committee responsible for audit and risk should bring independent scrutiny and challenge to provide the Board with assurance, and exercise oversight of the internal and external audit functions. At least once a year, the Board, or where it exists, the sub-committee should meet the external auditors without executives or other paid staff being present.

The Audit and Risk Committee should provide assurances to the Board that it is meeting its legal and regulatory responsibilities and that it can rely on the information presented.

Internal and External Audit
All AHBs should have an external audit function in place. The Board must ensure that the organisation’s external auditors are independent and effective.

Larger AHBs should have access to internal audit services, alongside a plan for how and when these are to be utilised. This plan should include the housing operation element of the organisation. Internal audit plans and actions are required to be linked directly to external audit findings, the organisation’s strategic plans and objectives and be linked to the AHB’s risk register.

3. AHBs can determine the type and composition of committees, e.g. Finance & Risk, Audit and Risk, Finance, Audit and Risk Committees.
4. Please see The Performance Standard located at www.housingagency.ie/regulation/publications

3.4 Finance and Housing

Financial Assets & Rental Income
The main financial assets of an AHB are its homes. AHBs should ensure that they have the appropriate mechanisms in place to protect and maintain their housing assets. These assets are predominantly publicly funded and maintaining them in good condition is critical to ensure that they can continue to provide social housing into the future.

Rental income is used to pay for the management and maintenance of the housing stock and the delivery of services. AHBs are expected to have in place policies, procedures and protocols outlining the approach to income management, and are expected to manage arrears, bad debts, and voids in an effective and timely manner.

Housing Expenditure
Understanding and planning for the current and future costs of repairs and maintenance is essential for ongoing business viability, identifying risk, determining future capacity for growth and for ensuring value for money. AHBs must carry out a range of activities in order to maintain and enhance assets. These activities will include responsive, cyclical and planned maintenance, supported by an annual planned maintenance programme which will deliver on clearly identified investment priorities.

An Asset Management Strategy should set out the AHB’s approach to the long-term investment in its housing assets, including having the appropriate policies and procedures in place. An Asset Management Strategy should reflect the size, scale and growth plans of the AHB. This should ensure that the housing stock of the organisation meets the needs of both existing and future tenants.

AHBs should have a strong line of sight on their existing and future asset costs and how they will be funded. Larger and growth AHBs should ensure that the Asset Management Strategy is linked with strategic and business plans.
Asset and Liability Register

AHBs should have a clear understanding and knowledge of their assets and liabilities. An Asset and Liability Register, which is proportionate to the size of the organisation, ensures efficient access to property information, enabling better oversight and property management.

Core property data such as the address, type of accommodation, age, location of deeds is central to an Asset and Liability Register. The data should include liabilities, funding sources and mortgage expiry dates. An Asset and Liability Register should record any changes to assets and liabilities over time. For managed or leased properties, the register should record property owner details, tenancy agreement end dates and repair obligations.

Sinking Funds and Stock Condition Surveys

It is critical that AHBs maintain the housing stock appropriately to prolong the useful life of the housing asset and to ensure that it is in good lettable condition for the long term. AHBs are aware of the importance of regular repairs and maintenance, and they incur regular expenditure in this regard. However, a sinking fund is not related to current expenditure. It is a fund/provision required for the longer-term systematic repair and refurbishment of housing stock e.g. roof replacement. It is designed to provide for major repairs and longer-term expenditure items only.

The level of provision in the sinking fund should relate to the condition and required works for the stock. The adequacy of the sinking fund provision can only be judged by the AHB through stock condition surveys. This looks at all parts of a building to assess the condition and state of repair and plan for immediate and long-term future works.

The Regulation Office seeks assurance that the methodology followed by the AHB in its stock condition survey is appropriate and that the AHB adequately identifies the investment required over the longer term. It is therefore necessary that there is external validation by an appropriately qualified and independent third party of the methodology used, in terms of the sample size, the quality, and accuracy of the assessed stock. All AHBs are expected to complete surveys that are externally validated.

The Regulation Office is cognisant of the need for this regulatory requirement to be both practical and cost effective. However, the sinking fund provision is a vital component of the Financial Standard as it safeguards the social housing asset and accordingly, the verification of the sinking fund is critical. It is expected that stock condition surveys are carried out on a regular basis.

A sinking fund provision is required for the repair, long-term planned maintenance and refurbishment of housing stock. AHBs must satisfy themselves that the provision of the sinking fund is adequate to meet future costs, as informed by the stock condition survey results, and ensure value for money.

AHBs have two options in relation to the sinking fund provision:

1. A sinking fund based on the results of a stock condition survey
   OR
2. Financial projections which demonstrate that the AHB can meet the costs of future repairs and maintenance, based on the results of a stock condition survey

The Regulation Office requires assurance that the stock condition survey methodology is appropriate and that the results are clearly evidenced and translated into a financial plan.

AHBs must ensure that the sinking fund provision is adequate to meet projected costs, in the long term, and have in place a clear methodology for managing and monitoring the adequacy of the sinking fund provision. In addition, AHBs should have a suitable system for collecting, maintaining and updating stock information which is proportionate to the size of the organisation.

AHBs are expected to have a sinking fund policy which sets out the approach taken by the organisation to fund the long term planned maintenance costs. AHBs must review their approach to sinking fund provision at least annually or following any significant event that might affect their financial position and could impact on sinking fund provision.
3.5 Group Structures & Related Parties

Group Structures
A number of AHBs are part of a larger group structure, operate subsidiary companies, special purpose vehicles, or are related to other organisations for the provision of certain functions.

It is important that AHBs manage these relationships so that any risks deriving from these relationships are managed effectively. In these instances, the Regulation Office will need to understand the governance arrangements and where responsibility and control lie, particularly in relation to the housing assets. The Standard requires that housing assets are clearly visible on the AHB’s financial statements.

AHBs must identify and make clear the roles and responsibilities of each part of the group, subsidiary, special purpose vehicle and/or related organisation and assign accountability for decision-making. It is expected that there are governance arrangements, including inter-group agreements or memorandum of understanding agreements in place, which defines all aspects of the parent/subsidiary/special purpose vehicle and other related organisations relationships and how these operate.

An AHB lending to, investing in, providing financial support or on-lending to another organisation must ensure it is legally able to do so and must manage the associated risks effectively. The Regulation Office expects the AHB to have a financially viable and robust model in its own right and not to be overly reliant on another entity. The Regulation Office expects that the risks and obligations are fully understood, and that the organisation is prepared administratively with sufficient skills in-house or externally contracted to robustly manage and mitigate risks in relation to such an agreement.

Related Parties
Where AHBs report that they have related parties in place providing supports and services, they are required to demonstrate and evidence that there are service level agreements in place. These should clearly delineate the roles and responsibilities of each organisation, specifically relating to their landlord responsibilities and the housing management function. The Regulation Office seeks assurance that Boards are fully independent, representing the independent legal entity and that Boards can demonstrate that they have the appropriate direction, control, oversight and unencumbered decision-making.

Where AHBs report that there are financial transactions between independent legal entities, they are required to ensure that contractual arrangements are in place governing such financial transactions. These arrangements should clearly outline the details of the financial transactions, including but not limited to, the terms of the contractual arrangement, conditions and repayment schedules, as appropriate.

AHBs are required to ensure that there is arms-length decision-making and appropriate segregation of duties and sign-off, where related parties exist.

Where there are related parties operating, assurance is required from the AHB that the relationship between both entities, and their performance, is being managed, so that any risks to the AHB, tenants, and other stakeholders are managed effectively. There should be a clear structure in place as to how both organisations operate alongside each other and as to how the governance and decision-making structures operate between entities.

Ancillary Activities
A large number of AHBs carry out ancillary activities, typically in care and support areas. Indeed, for many AHBs, the provision of social housing forms a minor part of their operations.

It is necessary for the Regulation Office to collect data relating to the whole of the business in its entirety. It would be inappropriate to focus only on the housing element of an organisation’s activities for several reasons, including the following:

- A severe financial crisis would affect the whole legal entity, not just the housing element
- The financial performance of the non-housing activities has the potential to impact on the housing assets, and
- Funders assess the financial strength of the whole entity when taking lending decisions

Funding Arrangements
Where AHBs are in receipt of substantial funding from State agencies, they are required to demonstrate that the organisation is meeting its operational, governance and financial requirements as set out under service arrangements with any such funders. AHBs are expected to meet all their legal and compliance obligations with all key funders.
### 3.6 All AHBs: Minimum Requirements of the Financial Standard

#### Minimum Requirements of Financial Standard: All AHBs

<table>
<thead>
<tr>
<th>Financial Viability</th>
<th><img src="#" alt="Operating Surplus" /> <img src="#" alt="Positive Liquidity" /> <img src="#" alt="Positive Operating Cashflows" /></th>
</tr>
</thead>
</table>
| Financial Management| ![Audited Financial Statements including visibility on:](#)  
– Income  
– Expenditure  
– Cashflow Statement  
– Balance Sheet  
  ![Annual Budgeting](#)  
  ![Mechanism for monitoring financial performance](#)  
  ![Visibility on Housing Assets](#)  
  ![Financial Controls](#)  
  ![Asset Register](#) |
| Risk Management     | ![Risk Register](#)  
  ![Identify and manage risk](#)  
  ![Proportionate and effective controls](#) |
| Financial Controls  | ![Documented financial policies and procedures](#)  
  ![Clearly defined roles and responsibilities](#)  
  ![Segregation of duties](#)  
  ![Reconciliation of transactions](#)  
  ![Approval hierarchies](#)  
  ![Financial reporting](#)  
  ![Audit trail maintenance and reporting](#) |
| Business Planning/  | ![Business planning/Budget](#)  
  ![Income](#)  
  ![Expenditure](#)  
  ![Cashflows](#)  
  ![Financial Viability](#) |
| Budget              | ![Housing Management](#)  
  ![Rental Income](#)  
  ![Rental Arrears](#)  
  ![Repairs and Maintenance Spend](#)  
  ![Void Management](#) |
| Performance         | ![Evidence appropriate sinking fund provision informed by results of stock condition survey](#)  
  ![All AHBs must inform the Regulation Office about any material, significant or exceptional issue, event, or change within its organisation, and how it intends to deal with it.](#) |
| Management          | ![Evidence appropriate sinking fund provision informed by results of stock condition survey](#)  
  ![All AHBs must inform the Regulation Office about any material, significant or exceptional issue, event, or change within its organisation, and how it intends to deal with it.](#) |
Chapter 4

Financial Forecasting Requirements

4.1 Financial Matrix: A Determination of Financial Forecasting Requirements

The Regulation Office has established a financial matrix to determine financial forecasting requirements of AHBs. This is aligned to risk-based regulation. As outlined previously, all AHBs are required to provide assurances and evidence that they can meet a minimum level of financial controls, governance and management.

However, in line with risk-based regulation it is necessary to ascertain key financial forecasting requirements based on current units, planned development and loan financing.

AHBs that are forecasting to grow their units, based on key criteria, over the coming years will be required to submit either 5-year or 30-year financial forecasts to the Regulation Office as part of the Annual Regulatory Assessment Cycle.

The thresholds for assessing the requirements for AHBs to comply with these financial forecasting requirements, are dependent on the levels of loan financing which will be taken on by the AHB to fund this growth.

Financial Matrix

The Financial Matrix is included below, outlining key Financial Standard requirements.

<table>
<thead>
<tr>
<th>AHBs Less than 50 units</th>
<th>AHBs 50-250 Units</th>
<th>AHBs over 250 Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Growth Plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 Year Forecast</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Lower Levels of Loan Financing</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Higher Levels of Loan Financing</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>No Growth Plans</td>
<td>✓</td>
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<tr>
<td>Lower Levels of Loan Financing</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Higher Levels of Loan Financing</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

5. The Financial Matrix is available on our website. AHBs can input key data and assess their requirements online.
6. AHBs wishing to submit a 30-year plan instead of a 5-year forecast are required to contact the Regulation Office.
4.2 Strategic and Business Planning

Strategic and Business plans
AHBs who are required to submit a 5-year or 30-year financial forecast must have strategic and business plans in place to accompany their financial projections. The Regulation Office has standardised templates for both 5-year and 30-year financial forecasts which consist of an income and expenditure account, balance sheet, cashflow, sinking funds, financial reconciliation, covenants and key ratios.

The vision and mission of the organisation needs to be translated into strategic objectives and from there into operational delivery. Strategic plans should outline the organisation’s high level objectives and key operating assumptions.

The accompanying business plan should detail the key actions for each year and be fully aligned to the AHB’s strategic plan. The plan should include the organisation’s forecasted development, associated funding, operational and economic assumptions. It is essential that AHB’s strategic and business plans consider the impact of any projected growth, not only on financial capacity, but also on organisational capacity and capability. Such considerations and underlying assumptions should be clearly outlined.

The business plan should include key factors potentially affecting the delivery of the organisation’s objectives, including external environmental factors that may affect it, such as interest rate movements, inflation and any changes to the development plan and existing stock. AHBs should ensure that the strategic, business and financial plans are fully integrated and that delivery against these objectives is monitored, with the use of key performance indicators.

An AHB’s 5-year or 30-year financial forecast should demonstrate and evidence that the organisation is able to generate sufficient income to meet its operating payments and debt commitments as they fall due, whilst maintaining existing assets and delivering high quality tenant services.

4.3 Financial Forecasting

Financial forecasting forms one part of the financial management of an organisation. The financial forecast is an estimate of how the organisation will perform financially in the future. It takes into account the strategy of the AHB including growth predictions, funding models, expected financing arrangements and key underlying assumptions about the internal, external and operating environments. It should provide the Board with the ability to fully assess, understand and ensure that the appropriate levels of human, financial and operational resources are in place to ensure delivery of objectives.

AHB’s financial forecasts should reflect the financial outcomes and findings of the business and strategic plans into the short, medium and long-term. Financial forecasting serves to highlight and reiterate how a decision taken today will impact into the future. It allows AHBs to anticipate and address potential problems that may impact the organisation in the longer term. As AHBs are custodians of long-term social housing assets, all decisions have to be made with the future in mind.

The financial forecasts are required to take into account current stock, current commitments, future investment requirements in existing stock, development plans and funding plans into the future. The underlying operational and economic assumptions should be clearly set out.

Boards should ensure that strategic, business and financial plans are realistic and achievable. AHBs are required to evidence and demonstrate that they have appropriate mechanisms in place for monitoring and reporting significant variances to plans.
4.4 Stress Testing

The capacity of an individual AHB to understand the effect of various changes on its business plan and financial forecasting is an important contributor to its ability to manage the risks inherent within its business.

A series of scenario analysis/stress testing is required to be completed as part of the AHB’s business planning and financial forecasting. This scenario analysis/stress testing should consider a range of assumptions providing a series of outputs that can be used to ascertain the ability of the organisation’s business and financial plans to withstand shocks.

A typical minimum set of variables to be stress tested would include:

- Non-delivery of units or significant variance from growth outlined in business plan
- Static rental income, combined with higher operational costs
- Levels of inflation
- Interest rates
- Void and bad debt loss
- Management costs, including staffing
- Increases in acquisition and build costs at key points in the development cycle
- Maintenance costs
- Variations on market rent and their impact on Payment and Availability Agreements
- Changes in rental income from tenants

The above list is not exhaustive. It is not appropriate for the Regulation Office to advise on the variables for testing as they are unique to each AHB, based on that organisation’s activities and previous experience. It is the prime responsibility of the Board to identify and manage the risks of its business. It should determine what combination of events may cause the plan to fail.

AHBs are required to demonstrate and evidence that they have stress tested their underlying assumptions, evaluated the outcomes of the stress tests and established appropriate mitigation actions, as applicable.

AHBs should ensure that they test their development plans using a number of variables including, but not limited to, not delivering on forecasted units. The results of this sensitivity analysis/stress testing should include impacts on key financials, ratios and operational impact. AHBs should go beyond simple sensitivity testing and include multi-variate analysis which tests against potential serious economic and business risks.

The Regulation Office expects the Board, as part of their risk management approach, to stress test their plans against multiple scenarios, including the concept of a ‘perfect storm’. Boards should explore the conditions which could lead to failure of delivering key aspects of its objectives, alongside failure of the business.

Boards should assure themselves that the scenarios are consistent with what they consider to be acceptable levels of risk and their obligations. Boards should play a key role in determining what are considered appropriate tests of the AHB’s forecast and understand what scenarios or combination of events could potentially put the organisation at risk. In designing the stress testing, AHBs should consider both the long term, cyclical nature of economic factors that impact on the business, as well as internal business risks.

AHBs should thoroughly stress test plans for increases in acquisition and build costs at key points in the development cycle and ensure that appropriate measures are in place to mitigate cost increases for the duration of any contracted programme.

AHBs are required to demonstrate they have plans in place to monitor and mitigate any material risks to their planned outcomes should any of the stress testing scenarios materialise.
4.5 Key Financial Indicators

AHBs are required to have a system in place to monitor key financial indicators, ratios against plans and compliance requirements with loan agreements/covenants as outlined by their funders.

AHBs should be prepared to provide assurance and evidence that they are complying with their contractual funding obligations, including such loan covenants.

In line with key funders, the Regulation Office reviews a number of key financial ratios which provide a measure of AHB’s financial health and viability in the short, medium and long-term. These ratios include but are not limited to, EBITDA, Interest Cover, EBITDA Margin, Debt Service Cover, Gearing, Gearing including CALF and Liquidity. Each ratio has been allocated a threshold by which the Regulation Office measures AHBs against the overall sector and the objectives of the AHB itself.

Where AHBs demonstrate that a number of thresholds will be breached concurrently and/or over a period of time, they may be asked to submit and/or demonstrate key actions to be taken by the Board and the executive. The Regulation Office expects actions to demonstrate financial viability, evidencing that both short and medium financial obligations can be met, and that the risk to the organisation is being appropriately managed.

Financial Ratios and thresholds will be regularly reviewed in line with changes to the operational, economic and legislative environment.

4.6 Treasury Management

AHBs are required to develop and implement a robust treasury strategy and treasury management policy. The depth and detail of the treasury policy should reflect the size and scale of the organisation alongside its key financial management and financial risks.

AHBs should ensure that treasury policies clearly outline the organisation’s policy, procedures, tolerance, limits and appetite relating to cashflows, banking, loan financing, interest rate risk, re-financing, match funding, hedging, swaps, capital markets, market risk, grant funding, financial diversification and compliance requirements including covenant reporting.

Treasury policies should be fully aligned with the organisation’s overall strategic and business plans and link with its risk framework and risk appetite. A reporting system should be in place to assess the AHB’s performance against their treasury policy, to ensure that it is implemented, adhered to correctly, that all loan covenants are complied with, and that the policy is effective.

Boards are expected to fully understand the implications and associated risks of the treasury management strategy it adopts and ensure that it is in the best interests of their organisation.
Chapter 5

Risk Management

5.1 Risk and Governance

Effective and meaningful risk management is an essential element of managing both opportunity and risk for an AHB’s Board. It enhances strategic and business planning whilst ensuring that the Board can respond to any challenges it faces. The Regulation Office seeks assurance that Boards are risk aware and that their organisations are risk enabled.

“Risk Management and internal controls are important and integral parts of a performance management system and crucial to the achievement of objectives”.

Risk cannot be completely avoided, and uncertainty or risk is often linked to the decision-making process within an organisation, particularly one that is experiencing a period of growth or change. Risk can be defined as “the effect of uncertainty on objectives”.

Having an effective risk management framework in place allows the Board to have a better understanding of the organisation’s ability to deliver on key objectives and allow for more informed decision-making. Boards are required to fully understand the nature and scale of the risks that they are willing to undertake to deliver on their strategy and objectives. AHBs are required to demonstrate and evidence that they have effective risk management structures in place.

The Board should ensure that they have proportionate and effective arrangements in place for managing risks through internal control systems and financial management. AHBs are required to ensure they have in place clear structures for identifying and managing the risks of the organisation.

Boards should retain overall responsibility for risk management and determine their organisation’s tolerance of risk. The board may delegate the detailed scrutiny and evaluation of risk to the committee responsible for audit, or to another committee. The Board should ensure it has the appropriate expertise and skills to challenge and scrutinise the risk of the organisation. The Board should give consideration at each meeting to relevant risks that the organisation faces. It should ensure it has appropriate plans and strategies to mitigate and manage risk effectively.

“The Board should ensure it has the appropriate expertise and skills to challenge and scrutinise the risk of the organisation”

8. ISO 31000
5.2 Risk Management Frameworks

An effective risk management framework provides the Board and executive team with assurance that risks are being identified and appropriately managed. A risk management framework should include risk policies and procedures and clearly identify the risk assessment tools used by the organisation.

The organisation’s risk register is a key output from the framework. It is the primary tool for formally documenting the AHB’s key risks and actions being taken to manage these risks. The risk register is an essential element of successfully managing risk, however, it will only be effective when utilised as part of a wider holistic approach to risk management. At a minimum, all organisations must have a risk register in place and a risk management framework which is proportionate to the scale and size of operations of the AHB.

The risk management framework should also include mechanisms to effectively monitor and evaluate the organisation’s approach to risk. AHBs are required to have a risk structure in place that clearly identifies risks to key objectives, clearly defines the Board’s risk appetite and has a risk framework that identifies, quantifies, assesses, challenges, evaluates, applies controls, identifies mitigating actions and has the ability to monitor and report.

Risk management is not static and requires continuous review and evaluation by the Board and executive. Larger and developing AHBs are required to ensure that there is a robust risk management framework in place. The risk framework must demonstrate and evidence that it is linked to the strategy, financial planning and debt capacity of the organisation.

A failure to maintain an effective framework of risk management, can compromise an organisation’s ability to meet its financial obligations. While financial risk is a fundamental element of internal control, effective risk management should encompass more than just financial risk, and should also consider any potential fraud, material compliance, quality, delivery, operational and reputational risks.

“Risk Management and internal controls are important and integral parts of a performance management system and crucial to the achievement of objectives”.

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Chapter 6

Notifiable Events

In the interests of good governance, AHB Boards should operate in an open and transparent manner, with particular regard to tenants and other key stakeholders. The Regulation Office expects that an AHB will demonstrate a co-operative approach to regulation and to be forthcoming with any information that it regards as important to the management of risks within the organisation.

All AHBs (irrespective of their size) must tell us about any material, significant or exceptional issue, event, or change within its organisation, and how it intends to deal with it. Where appropriate, the AHB should provide a reasonably detailed explanation as to why a significant change has occurred.

As a general guideline, notifiable events are serious or significant events that:

- May seriously affect tenant safety or service delivery arrangements
- May significantly threaten the stability, efficient running or viability of the organisation
- Put at risk the good governance and financial health of the organisation
- Bring the AHB into disrepute, or raise public or stakeholder concern about the AHB or the social housing sector
- Change the AHB’s governance, or any such activity that impacts the AHB’s risk profile

Who should notify the Regulation Office?

The Chief Executive or Chair of the AHB should inform the Regulation Office about any notifiable event which relates to performance and service delivery issues, or financial and funding issues.

The Chair of the Board should inform the Regulation Office where the notifiable event relates to a governance or organisational issue, for example where the Chief Executive has left, or if there are any issues relating to the Board.

The Board should be fully aware of all notifiable events and how the AHB intends to deal with them. AHBs should ensure that all relevant parties have been informed, as appropriate.

“In the interests of good governance, AHB Boards should operate in an open and transparent manner, with particular regard to tenants and other key stakeholders”.

The Financial Standard and Assessment Framework
When to notify the Regulation Office?

An AHB should inform the Regulation Office as soon as possible once they become aware of an issue. Notification should not be delayed until after all related action has been concluded. It is imperative that the Regulation Office is kept fully informed during any significant event.

It may be necessary to notify the Regulation Office before an event has occurred where the organisation has an early warning rather than waiting until after that event has occurred.

It should be noted that where an AHB has failed to notify the Regulation Office of a notifiable event, this may impact on their assessment outcome depending on the seriousness and nature of the event.

The Regulation Office expects AHBs to have developed an appropriate procedure for the notifying of such events.

Guidance on Notifiable Events

The Regulation Office has issued a Guidance note on Notifiable Events and this will be updated, as appropriate. AHBs should ensure that they familiarise themselves with key requirements. The guidance note provides a list of comprehensive examples of notifiable events and is available on our website.
