

# Regulation & Risk Management

*Guest Speaker*

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# Regulatory Focus

*Our mission is to protect AHB assets and safeguard the interests of their current and future tenants by regulating for a **well governed, well managed and financially viable** sector.*





# What do we look for...

- ✓ Good Governance
  - Fully functioning Boards
  - Skills, expertise & diversity
  - Strategic direction & oversight
  - Risk Management
- ✓ Financial Management
  - Financial Viability
  - Strategic & Business Planning
  - Detailed Financials & Forecasting
- ✓ Performance Management
  - People
  - Property
  - Performance







**33,945**

- Small number of AHBs own/manage majority of stock
- Complex & diverse sector encompassing housing, supports and services
- Growth envisaged from small number of AHBs

**19 Tier 3 AHBs**  
account for  
**75% of Entire  
Stock**



Owned	26,248
Leased	4,213
Managed	3,483
<b>Totals</b>	<b>33,945</b>



# Regulatory Framework



# Evolution of Regulation

- **Voluntary Regulatory Code:** July 2013
- **iRC & Regulation Office established:** Feb 2014
- **Financial Standard:** July 2015
- **Funding Eligibility:** Circular 15/2016
- **Governance Standard:** Dec 2017
- **Performance Standard:** Dec 2018





# Funding is linked to Regulation

## Circular 15/2016

*‘From 1 January 2017, in addition to the requirement to have signed up to the Code, those AHBs that are able to demonstrate commitment to and engagement with both the VRC and the Financial Standard and Assessment Framework, having undergone a satisfactory assessment as part of the annual assessment process by the Regulation Office will be considered eligible for funding under the above schemes’*

*Local Authority oversight is crucial....Commissioning V Regulation*



# Regulatory Framework: VRC +

Proportionate

## Financial Standard

### Financial Viability

- Surplus/Deficit
- Liquidity
- Cashflow

Transparent

Risk Based

### L-T Viability

- Strategy
- Business Planning
- Annual Financial Return
- 30-year Extrapolated Financials
- Stress Testing & Mitigations
- Key Financial Ratios
- Asset Management
- Risk Management

Comply or  
Explain

## Governance Standard

Fully Functioning Board

Oversight, Direction & Control

Strategy/Leadership

Outcomes Focused

Transparency

Skills, Expertise & Diversity

Financial Governance & Risk Management

## Performance Standard

### • People

- Tenant Policies
- Allocations
- Income Mgmt.
- Communication

### • Property

- Voids
- H&S
- Sinking Fund
- Stock Condition Surveys
- Repairs & Maintenance
- Asset Mgmt.

### • Performance

- KPI
- VFM
- Management & Maintenance Costs
- Planning & Oversight

*Standards are NOT standalone, they are significantly interlinked*



# **Risk Based Regulation: Context**



- **Growth**
  - *Significant Growth Forecast across a number of key entities*
  - *Impact on resourcing & timelines to invest*
  - *Delivery & Capacity remain critical*
- **Debt**
  - *Change in Debt Profiles for a number of key entities*
  - *Proportion of AHBs stating will grow utilising CAS ONLY (non debt AHBs)*
- **Change Management & Investment**
  - *Tenant & Asset Management*
  - *Risk Management*
  - *Treasury Management*
  - *Operations & Infrastructure*
  - *Human Resources*
  - *Evidence of cost base increasing*
- **Risk Management and robust challenge needs to be fully integrated**
  - *Application of robust risk framework critical in growth environment*
  - *Discussions required around three lines of defence*
  - *Financial Oversight & Governance required to be fully aligned*
- **Understanding & application of risk is KEY**



# Risk Identification

## INTERNAL RISK

- Delivery & Execution
- Purchase V Build
- Capacity
- Infrastructure
- BAU V Growth V Transition
- Managing Change Environment
- Liquidity/Cash/Debt Profiling
- Tenant Management
- Asset Management
- Development Management
- Alternative Funding

## EXTERNAL RISK

- Complexity of Sector
- Classification
- Funding
- Government Policy
- Housing & Land: Availability
- Economic & Market Risk
- Legislation
- Inflationary Pressures
- Concentration Risk
- Alternative Funding
- Regulatory Environment



# **Risk Management: A framework for success**





- Have we identified the right risks?
- What are operational assurances and internal controls?
- What's our Risk Appetite?
- Is our Risk Management?
  - Strategic
  - Organisation specific
  - Manageable
  - Proportional
  - Integrated
  - Rigorous
  - Relevant & Updated

**It's about being Risk AWARE not Risk Averse.....**



# What is Risk Management?

## Risk Definitions:

*'A risk is an uncertain event which may occur in the future preventing or delaying a charity's ability to realise and achieve its objectives'*

*'Risk management is the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities'*

*'Risk is the forecasting and evaluation of financial risks together with the identification of procedures to avoid or minimize their impact'*

*Risk is the "effect of uncertainty on objectives" and an effect is a positive or negative deviation from what is expected.*

***Risk is an event that could impede an organisation achieving its objectives.***

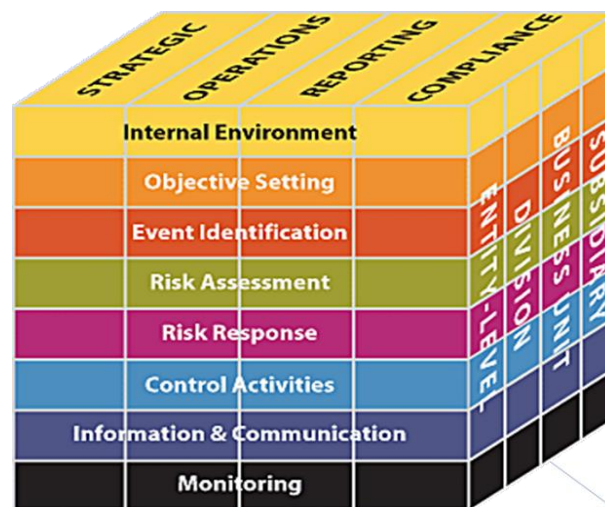
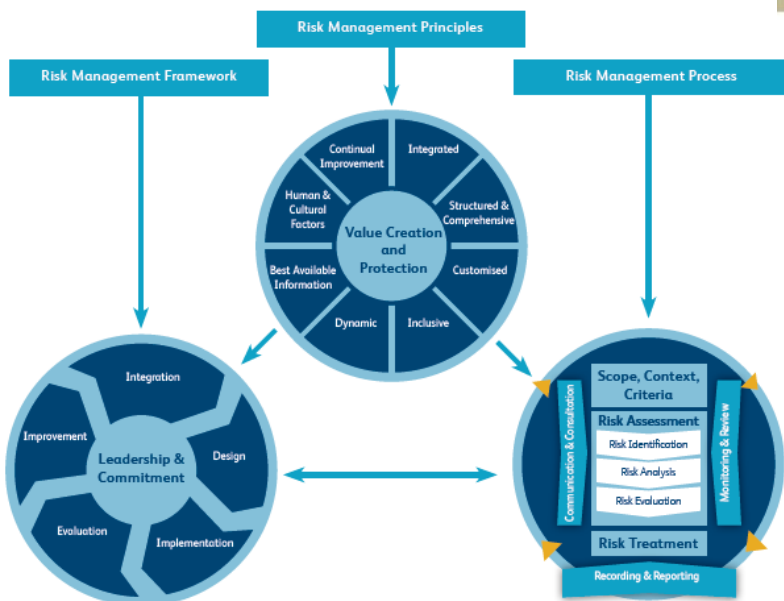
***Risk Management is the framework in place to manage risk.***



# Risk Frameworks

- Slightly different but fundamentals remain the same
- Risk is NOT static is continuous & ever changing
- The framework should provide assurance, accountability & **opportunities**

## The Three Lines of Defense Model





# Governance & Risk

- Understanding your organisation
- Governance
  - *Robust Discussion*
  - *Clear Objectives – Short & Long Term*
  - *Skills, expertise & composition*
- Evidence of Collective Decision Making
- Policies & Procedures – who is responsible for what, when, where, conflict
- Reporting capabilities
- Transparency, Accountability & Consistency
- Understanding your Risks – what are they?
- Understanding legal & compliance obligations





**In relation to risk – what does the  
Regulator look for?**



1. Does the organisation have a risk management framework in place, specifically relating to the Housing Assets?

2. *Does the Risk Framework include the following:*

- Risk Management Policy
- Risk Register
- Are there key risk indicators in place?

3. Is the risk framework linked to strategy, financial planning and debt capacity?

4. Does the organisation's risk management framework include?

- Identification
- Assessment
- Appetite
- Tolerance
- Mitigation
- Communication



# What does a Regulator Look for

- Nature & Scale of Activities
- Growth Plans
- Clearly defined goals & objectives
- Defined Outcomes
- Understanding of risks
- Evidence of strong & embedded risk culture
- Alignment of plans, strategy, financials
- BAU V Growth V Transition
- Is it clear – who is responsible for what?
- Evidence & Assurance relating to
  - Growth
  - Investment
  - HR
  - Change Management
  - Internal Controls
- Realistic plans & variances
- Understanding of Controllable V Uncontrollable risk
- Risk Policy, Risk Register, Audit & Stress Testing links
- Sense check: Are all risks low/medium?
- Is there visibility on inherent & residual risk?
- Is Risk a standing item agenda?

*Robust challenge & collective decision-making*



# AHBs & Risk Management



# Director Questions

- What business are we in?
- Nature & Scale
- Have we clearly identified our strategic & operational objectives?
- What could go wrong?
- What must go right to succeed?
- What activities are most complex?
- Do we have sufficient quality information to make informed decisions?
- Where do we spend the most money?
- What's our risk appetite/tolerance?
- Am I assured as a director that:
  - Have we identified the right risks?
  - The correct controls are in place?
  - Is the effectiveness of our internal controls realistic?
  - Does the risk ranking accurately reflect the organisation I am overseeing?
- How are we managing
  - BAU Risk
  - Growth Risk
  - Change Risk
  - Controllable v Uncontrollable Risk?
- Is risk a standing item agenda? Is risk rotating?
- Am I clear about the gaps & roadmap for action



# Risk Framework

- *Horizon Scanning*
- *Emerging Risks*
- *Mitigated Risks*
- *Change in Strategy/purpose*

Identify

- *Risk Categorisation*
- *Owners*
- *Controllable/Non Controllable*

Monitor &  
Report

- *Prioritise*
- *Communicate*
- *Rank*
- *Standardisation*
- *Observation V  
action risk*

Quantify &  
Assess

- *Impact*
- *Likelihood*
- *Inherent Risk*
- *Prioritisation*

Mitigate

- *Residual Risk\**
  - *Tolerate*
  - *Treat*
  - *Substitute*
  - *Terminate*
- *Consider re-assessment*

Challenge &  
Evaluate  
Controls

- *Controls*
- *Process & Procedure*
- *Frequency*
- *Accountability &  
Responsibility*
- *Control Effectiveness*



# Risk Management

## Goals/Objectives:

Tenant Focus

Growth Non Debt

Growth Debt

No Growth

Governance

External Funders

Voids

Arrears

Asset Management

## Principles

Customer Satisfaction

Covenants

Performance, timely provision of services

Management & Governance  
Effective, Efficient, planned,  
delivered, managed & assessed

Transparency, accountability &  
Consistency

Co-ordinated and collaborative

Communication

Values & Professionalism

## RISK: The Three lines of Defence:

### 1. Functions & units that Own, Manage & Accountable for risk:

- Activities Based
- Front line Defence
- Risk Assessment
- Control Environment
- Monitoring & Reporting
- Mitigating Actions

### 2. Internal governance

- Compliance
- Risk Management
- Quality & Reporting
- IT
- Finance

### 3. Audit & Oversight

- Internal & External
- Risk Linked
- Assurance
- Audit & Risk Committee
- Board



## The Framework

- Risk Management Policy
  - I.A.A.T.M.C
- Risk Register
  - Has it identified the right risks?
  - Is it proportionate?
  - Risk Variance Analysis
  - Stress Tests
- Risk Decisioning
- Key Risk Indicators (KRI's)
- Is Risk aligned to
  - Strategic Objectives
  - Divisions
  - Categorisation
  - Trends

## The Risk Test

- Understandable
- Risk Culture
- Consistent & Effective
- Manageable & Proportional
- Integrated & Rigorous
- Relevant & Robust
- Accountability & Responsibility defined
- Risk Based

## The Quality Environment

- ICT
- Roadmap for Risk
- Education Model & Forums
- Thematic Reviews & IDA's
- Quality Control Environment
- Gap Analysis - Action Plan for Change
- BAU V Risk-Based

Robust, Adaptable, Dynamic

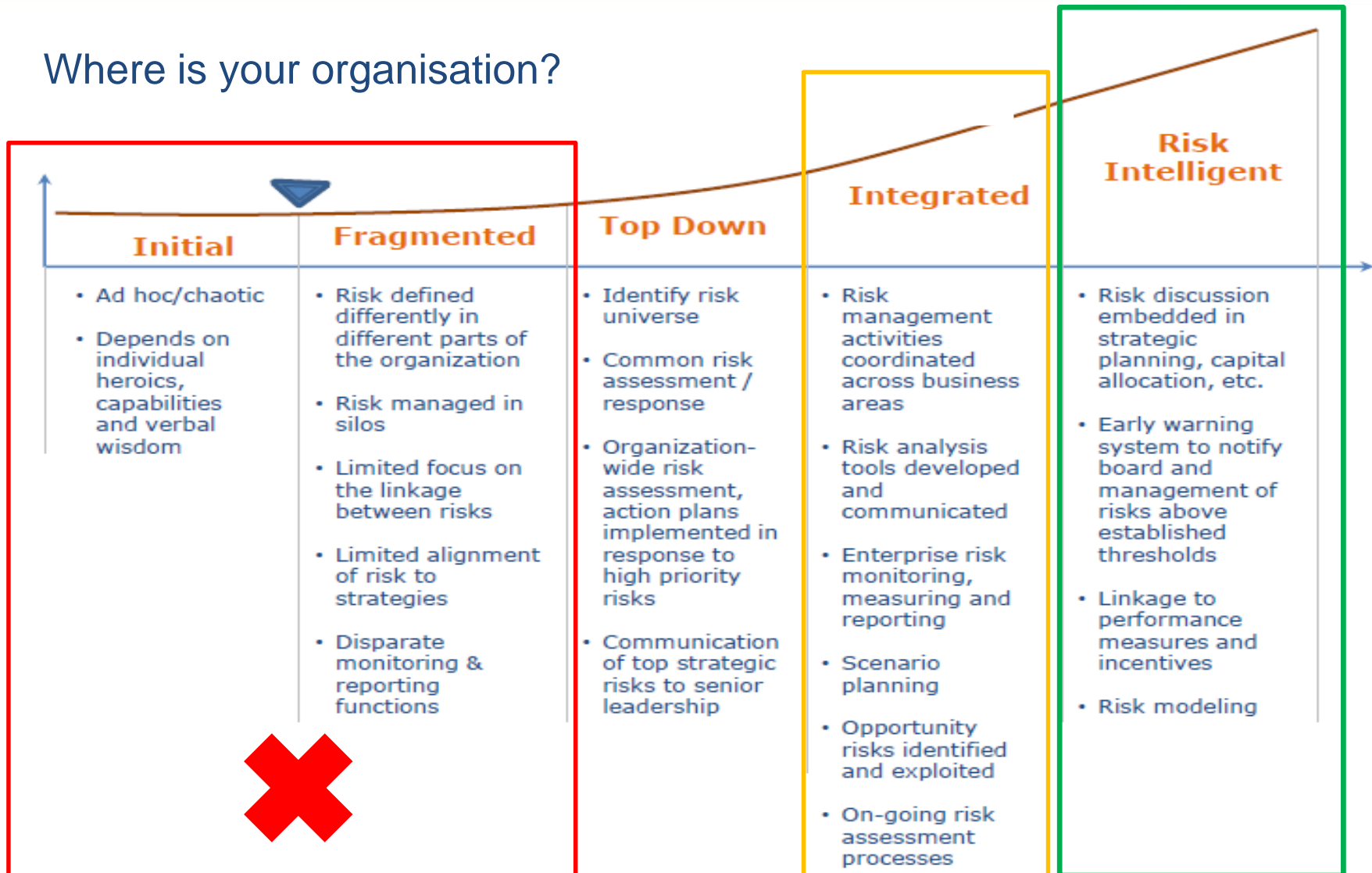


# Final Thoughts



# Risk Maturity Ladder

Where is your organisation?





# Key Takeaway's

- Know your business
- Know your People, Know your Assets
- Identify risks inherent in your Business as Usual and/or change and transition model
- Identify who is responsible for what?
- Embed a risk management culture into your organisation
- Use risk framework to identify **opportunities** not just RISK
- Have a clearly established processes in place to identify, assess, quantify, monitor and evaluate risk
- Ensure the entire organisation, understands their role in the risk management process
- Ensure appropriate challenge of risk & mitigations on regular basis by the Board
- A risk register alone does NOT provide a comprehensive risk framework
- ***Risk is fundamental to future growth***

*Be Risk Enabled*



# THANK YOU

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