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THE REGULATION OF APPROVED HOUSING BODIES IN IRELAND

2017 ANNUAL REPORT AND SECTORAL ANALYSIS

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CONTENTS

Foreword from the Chair

Mary Lee Rhodes

The last regulatory cycle (2017/2018) has been a busy one indeed with a number of changes - both planned and unplanned - requiring attention from the Regulation Office and the interim Regulatory Committee (iRC).

The reclassification of Tier 3 AHBs by the CSO / Eurostat in December 2017 was one of the unexpected changes which has yet to fully play out in its impact on legislation and the shape and role of regulation. On the planned side, the regulatory framework continued to be developed and embedded into the sector with 247 AHBs assessed and a new governance standard rolled out. As part of the continued application of the Assessment process, 14 AHBs were deemed to require engagement with three organisations classified as unsatisfactory and de-registered during the year. Finally, the ongoing housing crisis further underscores the need for substantial investment in AHBs, the availability of which is arrested by ongoing uncertainty about regulation and classification.

And so, after four years of development and operation of the voluntary code, it is now clear that we have a robust regulatory process to which a majority of AHBs have voluntarily signed up and which is being applied transparently, effectively and with meaningful consequences for noncompliance. Recognizing this fact, the iRC has begun to explore how best to ensure that each of the stakeholders in the sector can continue to operate effectively under a kind of 'hybrid' regulatory regime while waiting for the legislation to be passed. To that end, the Department of Housing, Planning and Local Government has asked for recommendations from the iRC about changes to its Terms of Reference in order to ensure proper oversight and governance arrangements for a Regulation Office that sits between two entities: the Housing Agency and the iRC itself - but that is intended to operate independently when regulation is finally put on statutory footing. It is particularly important to put in place protocols that enable other statutory agencies to take appropriate action when serious issues arise.

The success of the voluntary code to date is a testament to the incredible work of the Regulation Office, the cooperation and commitment of the AHBs, the unstinting contributions of the members of the iRC and the ongoing support of the Department. The Regulation Office has functioned in spite of a significant amount of turnover and introduced ongoing improvements and efficiencies that will serve to make the transition to statutory regulation that much smoother when it occurs. In the meantime, tenants and citizens may be assured that, as long as the Regulation Office is properly resourced and supported, those AHBs complying with the voluntary code are stable, well-regulated and accountable to their stakeholders.

Mary Lee Rhodes
Chair, interim Regulatory Committee

Introduction from Head of Regulation

Susanna Lyons

This Annual Report and Sectoral Analysis provides a comprehensive overview of the work of the Regulation Office throughout 2017/18, alongside sector-wide analysis and detailed accounts of projected growth and financing.

247 AHBs were appraised during the assessment cycle with 83% of AHBs demonstrating high levels of compliance. The AHBs assessed represent 31,080 homes under the regulatory framework. The AHB Sector continued to show a strong commitment to ensuring they are well-managed, well-governed and financially viable.

Despite the significant advancement made in relation to the Regulatory Framework, a number of key issues materialised in 2017/18. The determination by Eurostat and the CSO in December 2017, classifying many Tier 3 AHBs as 'on balance sheet' has created considerable uncertainty in the sector. The implications of this decision and classification for the sector remains under review. The classification is layered and complex and will require concerted effort by key stakeholders to establish the impact on medium and long-term funding arrangements and most importantly the ability of AHBs to deliver much need housing.

Additionally, the delay in the publication of the Housing (Regulation of Approved Housing Bodies) Bill is of concern. The move from a Voluntary Regulatory Framework to a Statutory Framework was anticipated to provide assurances to investors, tenants, the Government and to the sector itself that AHBs operate in a well-regulated and stable environment. The continued delay to the publication and commencement of the Bill is a key risk to the sector with both reputational and funding implications.

The Regulatory Framework continued to advance with the introduction of the Governance Standard in November 2017 and the anticipated launch of the Performance Standard in December 2018, the final standard in the series. The Financial Standard continued to be embedded with Tier 3 AHBs showing considerable commitment to this extensive requirement. Additionally, ten Tier 2 AHBs participated in the Financial Standard pilot which provided important learnings to the Regulation Office.

The coming year will see further advancements to the Regulatory Framework. The Regulation Office has committed to delivering a series of Guidance materials and educational roadshows for both the Governance and Performance Standards. The Financial Standard will be fully reviewed in 2019, with the pro-active engagement of key stakeholders.

I would like to thank the interim Regulatory Committee for its oversight, knowledge, direction and challenge throughout the 2017/18 Regulatory Cycle. Their dedication and input has been of great benefit to the Regulation Office. Finally, I wish to acknowledge the fantastic work of the Regulation Team over the past year. The team's professionalism and commitment to the Voluntary Code and the AHB sector has been immeasurable.

Susanna Lyons

Susanna Lyons
Head of Regulation

Chapter 1: Regulation

The Regulation Office – Mission, Governance and Framework

The Regulation Office remains focused on its primary goal of working to protect AHB assets and safeguard the interests of current and future tenants. AHBs continue to strengthen and enhance their Governance, Financial Viability and Performance Management.

Our Mission

The Regulation Office's mission is to protect AHB assets and safeguard the interests of the sector's current and future tenants by regulating for a well-governed, well-managed and financially viable sector.

The Regulation Office works to fulfil this mission through a range of practical objectives which:

- Provide assurance to tenants, Boards, government, and potential investors that the AHB sector is stable and well-regulated
- Safeguard public investment in the sector
- Provide a framework for AHBs to manage risk effectively and to focus on achieving best outcomes for tenants
- Protect existing and future AHB tenants by promoting openness and accountability
- Contribute to the overall sustainability of the sector

Interim Regulatory Committee

The work of the Regulation Office is overseen by an interim Regulatory Committee (iRC) of non-executive members with extensive experience ranging across regulation, law, finance and housing.

The iRC is collectively responsible for leading and directing the Regulation Office activities. The Committee sets the goals, objectives and priorities for the Regulation Office and delegates the day-to-day responsibilities to the Head of Regulation.

The Committee was appointed by the Minister for Housing, Planning and Local Government in February 2014. All members are voluntary and are not remunerated for their services. The interim Regulatory Committee has clearly established regulatory duties and functions, outlined in regulatory committee protocols and terms of reference. Over the past cycle there have been two resignations: Gerry Hunt and Margaret Geraghty. These members have not yet been replaced.

In 2017/18, the iRC continued to be actively involved in its advisory capacity with the legislation for establishing an AHB Regulator and statutory Regulation. The Committee provided advice to the Minister and the Department on the formulation of the legislative framework and embedding standards. The Committee has overseen the introduction of the Financial Standard, Governance Standard and the upcoming Performance Standard. It remains dedicated to ensuring the new regulatory body is fit for purpose and has independent decision-making powers.

The Role of the Regulation Office

The Regulation Office is responsible for managing the day-to-day implementation of the Voluntary Regulatory Code and key standards. The Regulation Office conducts a detailed review of AHBs against the Code and key standards. The Regulatory Assessment is based on the completed Annual Regulatory Return, audited Financial Statements, key information provided by the AHB and other publicly available information.

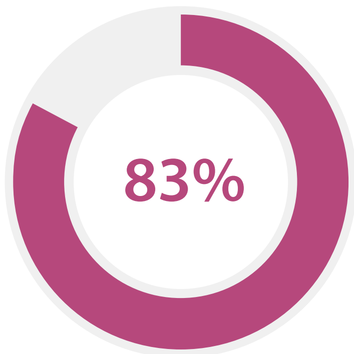
The Regulation Office reviews in detail:

Governance – that the organisation is well governed, with a fully functioning board, providing oversight, direction, control and challenge to the Executive, where applicable. Review of the governance structure includes roles and responsibilities, delegation of duties to the Executive, where applicable, number of meetings, policies, skills and expertise of the Board members, compliance with legislation and that appropriate board governance structures are in place.

Financial Viability – the Regulation Office completes a review of the AHB's audited Financial Statements, proportionate to an organisation's Tier level, annual reports, strategic plans and financial plans where appropriate. The Regulation Office reviews whether an AHB is operating a surplus or deficit (over two or more years), is liquid and generating positive operating cashflows. Tier 3 AHBs and developing T2 AHBs submit detailed financial regulatory returns as part of the Financial Standard. Such requirements remain proportionate and risk-based in line with the principles of the regulatory framework.

Performance Management
AHBs must be accountable to their tenants and the regulatory framework emphasises this by requiring AHBs to monitor and report on how they manage their operations including areas such as repairs, allocations, voids and arrears. This involves having an agreed set of performance management indicators, specific tenant service indicators and communication mechanisms.

In the 2017/18 Regulatory Assessment Cycle, 247 AHBs were assessed against the Code and key standards where applicable. Each AHB signed up to the Code was issued with a Regulatory Assessment Report or Outcome Statement providing an assessment outcome. The assessment process demonstrated high levels of compliance across the sector with 83% of AHBs reporting high levels of compliance.



83% of AHBs reported high levels of compliance

Advancements of the Regulatory Framework:

Voluntary Regulatory Code and the Three Key Standards

The Regulatory Framework has expanded beyond the original Voluntary Regulatory Code, with the introduction of key standards. Additionally the regulatory framework has been further enhanced with the introduction of Circular 15/2016.

Circular 15/2016

While the Code is voluntary, funding eligibility is aligned to those AHBs signed up to and demonstrating compliance with the Code, as per Department Circular 15/2016:

'From 1 January 2017, in addition to the requirement to have signed up to the Code, only those AHBs that are able to demonstrate commitment to and engagement with both the VRC [Voluntary Regulatory Code] 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.'

The context for Circular 15/2016 is to 'ensure that State funding is prioritised to AHBs that have regulatory oversight and, therefore, can demonstrate that they are well governed, well managed and are financially viable'.

The Regulatory Standards

Governance Standard

- Fully Functioning Board
- Oversight, Direction and Control
- Strategy/Leadership
- Outcomes Focused
- Transparency
- Skills, Expertise and Diversity
- Financial Governance and Risk Management

Issued: November 2017

Financial Standard

Financial Viability
- Surplus/Deficit
- Liquidity
- Cashflow

L-T Viability
- Strategy
- Business Planning
- Annual Financial Return
- 30-year Extrapolated Financials
- Stress Testing and Mitigations
- Key Financial Ratios
- Asset Management
- Risk Management

Issued: July 2015

Performance Standard

People
- Tenant Policies
- Allocations
- Income Management
- Communication

Property
- Voids
- H&S
- Sinking Fund
- Stock Condition Surveys
- Repairs and Maintenance
- Asset Management

Performance
- KPI
- VFM
- Management and Maintenance Cost
- Planning and Oversight

Issuing: December 2018

The Regulatory Framework has continued to advance throughout 2017 and 2018, with the publication of the Governance Standard in November 2017 and the anticipated launch of the Performance Standard in December 2018.

The Code and standards are proportionate and risk-based, meaning the extent of regulation and what is required by an AHB is dependent on the size, scale and level of risk of each individual AHB. Larger scale AHBs and those AHBs with significant development plans are subject to more rigorous regulation.

The Regulatory Standards provide a framework by which AHBs provide assurances that they have the appropriate Governance, including oversight, direction, control, leadership, effective financial and risk management frameworks. AHBs are required to demonstrate Financial viability both in the short and long term. Tier 3 AHBs and developing Tier 2 AHBs are required under the Financial Standard to implement strategies, business plans, financial plans, extrapolated 30-year financials, stress testing and KRI's. AHBs are expected to provide a strong focus on tenants and housing management, with assurances that they have established outcomes in relation to performance and with key focus on People, Property and Performance.

The coming year will see the Regulation Office issuing Guidance and providing Education forums for the AHB Sector to ensure all Tier levels are advancing their alignment with the Standards. Additionally, it is anticipated that the Financial Standard will be reviewed in full in 2019, to ensure full alignment to the sector's capacity and capability, risk-based regulation and the Governance and Performance Standards.

Larger scale AHBs and those AHBs with significant development plans are subject to more rigorous regulation.

Emerging Issues and Priorities

The AHB Sector is going through a period of fluctuation and change, particularly in relation to funding and balance sheet implications, as a result of the December 2017 classification.

Additionally, the Assessment Cycle 2017/18 highlighted a number of emerging issues and priorities. We continue to work with boards and executives of AHBs and all key stakeholders within the sector to address these issues, as appropriate.

Legislation

The delay in the publication of the Housing (Regulation of Approved Housing Bodies) Bill is as a key concern raised by the AHB Sector. The move from a Voluntary Regulatory Framework to a Statutory Framework was anticipated to provide assurances to investors, tenants, the Government and to the sector itself that AHBs operate in a well-regulated and stable environment. The continued delay to the publication and commencement of the Bill has been identified as a key risk to the sector with both reputational and funding implications.

Classification

The classification of key Tier 3 AHBs as 'on balance sheet' in December 2017 has created considerable uncertainty in the AHB sector. The implications of this decision and classification for the sector remain under review. Clarification is required with particular emphasis on the impact on medium and long-term funding arrangements for Approved Housing Bodies with significant growth plans.

Land & Housing Availability

AHBs have identified that the availability of affordable housing to purchase, for delivery, has reduced significantly.

Additionally, competition for available lands has been identified as a key risk, with cost of available lands rising due to increased competition.

Economic & Investment Risk

The strengthening economic environment has led to inflationary pressures on house prices, labour costs, salary increases and operating cost increases. Additionally, several large and developing AHBs have reported substantial investment in IT infrastructure and human resources to meet the increasing demands for housing. This could potentially put significant pressure on operating margins in the longer term, particularly if delivery of housing is not forthcoming.

Capacity & Concentration Risk

The capacity of the sector for expansive delivery remains constrained. The growth plans submitted have highlighted that significant unit growth is concentrated in a small number of AHBs. Of the 8,346 new units forecasted for 2017-2019, 68% are reported to be delivered by just four Tier 3 AHBs. Risk of delivery therefore is focused on a few organisations, increasing capacity risk for these AHBs and delivery risk for the sector overall. This will require continued monitoring in the coming years.

Chapter 2: Sectoral Analysis

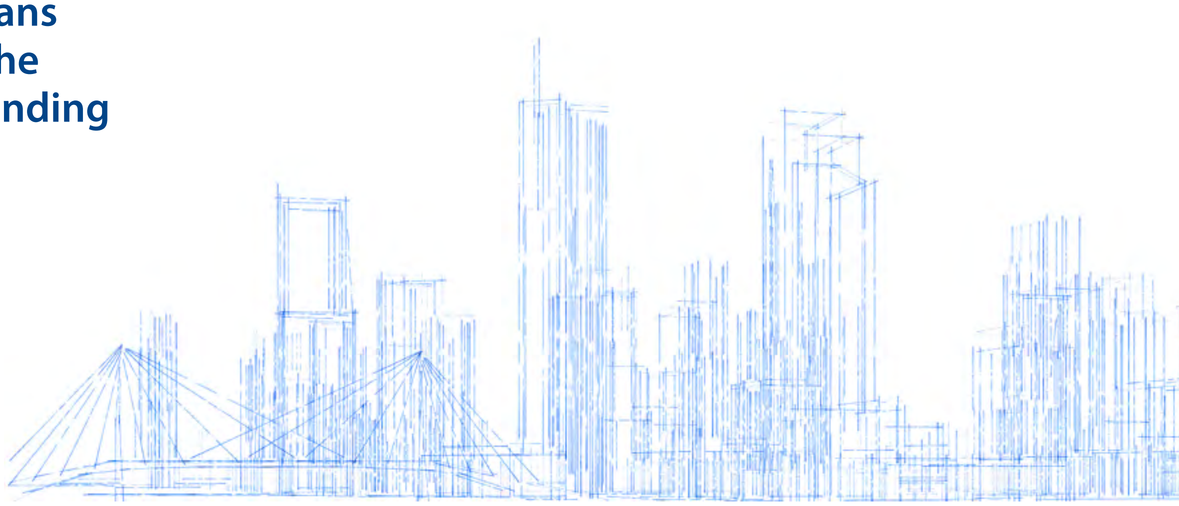
In this chapter, we outline the key findings from the assessment process, including total housing stock, compliance, governance, financial management, performance management and risk-based regulation. The consolidated analysis represents submissions from 247 AHBs. The chapter provides detailed analysis on the growth plans of AHBs and the anticipated funding mechanisms.

The AHB Sector remains predominated by a high volume of small, locally-based AHBs managing a small number of units, alongside a few large AHBs managing substantial housing portfolios. Additionally, the sector is dispersed with care, support and services-orientated entities whose operations contain only an element of housing, these are mainly Tier 2 AHBs.

The range and diversity of organisations operating in the sector remains apparent.

The range and diversity of organisations operating in the AHB sector remains apparent.

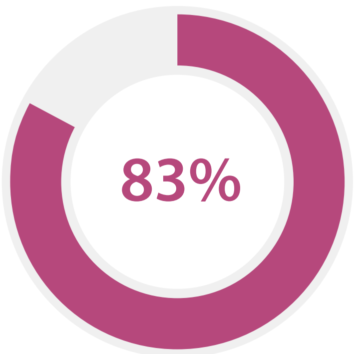
Tier	Number of AHBs	Number of Units
Tier 1	179	2,947
Tier 2	50	5,016
Tier 3	18	23,117
Totals	**247**	**31,080**



1. Regulatory Outcomes

The Regulation Office conducted detailed assessments of 247 AHBs in the 2017/18 assessment cycle. High levels of compliance were reported by AHBs, alongside evidence of embedding and strengthening of risk management, financial planning, stress testing, management of related parties and sinking fund provision.

The assessment process is conducted within a lagged environment. Many instances of non-compliance have been addressed by AHBs in the intervening period. A review of the assessment framework and lagged environment is to be conducted with the input of the sector in 2019.



83% of all AHBs were issued with an assessment outcome highlighting high levels of compliance.

As part of the 2017/18 annual regulatory assessment process, the Regulation Office deemed fifteen AHBs to require Engagement. These AHBs demonstrated governance, financial and/or performance issues. The issues identified were varied and complex and AHBs worked with the Regulation Office to implement remedial action.

The period for which AHBs remain in engagement is heavily dependent on the actions of the organisation itself. The levels of engagement, executed actions and commitment by Boards varies between entities. In the majority of cases, organisations are actively working to ensure compliance with the Code and to remove themselves from engagement. The Regulation Office continues to work with each organisation in this respect.

Three AHBs were deemed unsatisfactory in the 2017/18 assessment cycle. Those AHBs evidenced significant non-compliance with the Code and highlighted a number of risk-based issues. In line with due process, iRC approval is required prior to an AHB being deemed 'unsatisfactory'. These three entities represent just 1% of all AHBs signed up to the Code and therefore are significant outliers to the overall compliance recorded in the sector.

The assessment process is conducted within a lagged environment. Many instances of non-compliance have been addressed by AHBs in the intervening period.

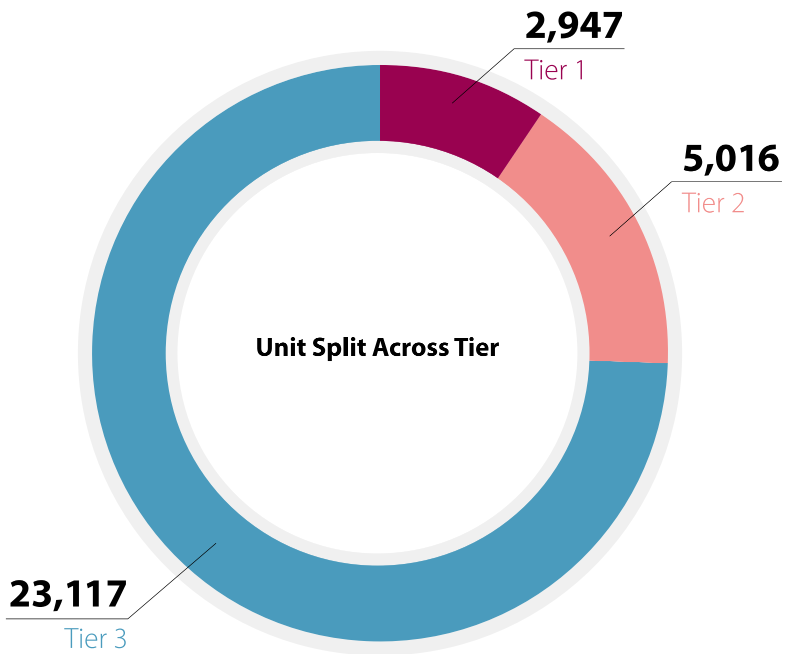
2. Housing Stock

AHB Housing Stock Profile

The 247 AHBs assessed represent 31,080 units across the Sector. 74% of the total number of regulated housing units are managed by 18 Tier 3 AHBs.

The diagram on the right sets out the total number of units owned, leased or managed by Tier 1, 2 and 3 AHBs.

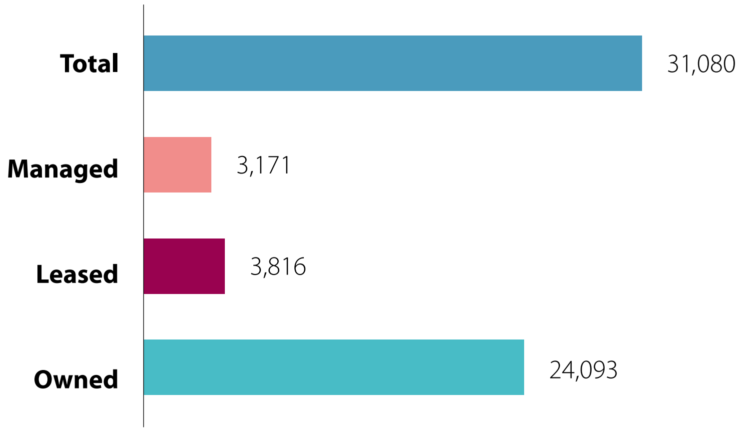
The stock profile highlights that 188 AHBs signed up to the Code own, lease and manage just 10% of the regulated housing units. The remaining 59 AHBs account for 90% of the regulated stock.



Diversification of Sector	No. of AHBs	No. of Units	% of Units
Less Than 20 Units	126	1,152	4%
Between 20-50 Units	62	1,995	6%
Between 50-100 Units	22	1,456	5%
Between 100-300 Units	23	4,454	14%
Between 300-1,000 Units	7	3,527	11%
Greater than >1,000 Units	7	18,496	60%
Totals	**247**	**31,080**	**100%**

AHBs reported that approximately 78% of units are owned.

The chart to the right sets out the total number of units within the sector which are either owned, leased or managed.



3. Governance

Governance and the AHB Sector

Well governed organisations should have clearly identified goals and objectives with plans to achieve these objectives. The Board has the responsibility to ensure that the leadership of the organisation has the appropriate direction, oversight and control. It ensures best practices in transparency, reporting, communications, audit and managing risks through robust control systems and effective performance management.

The AHB sector continues to report increased levels of compliance across all governance areas. The Regulation Office welcomes the advancements made and would like to acknowledge the commitment from organisations, and their Boards, in meeting the requirements of the regulatory framework.

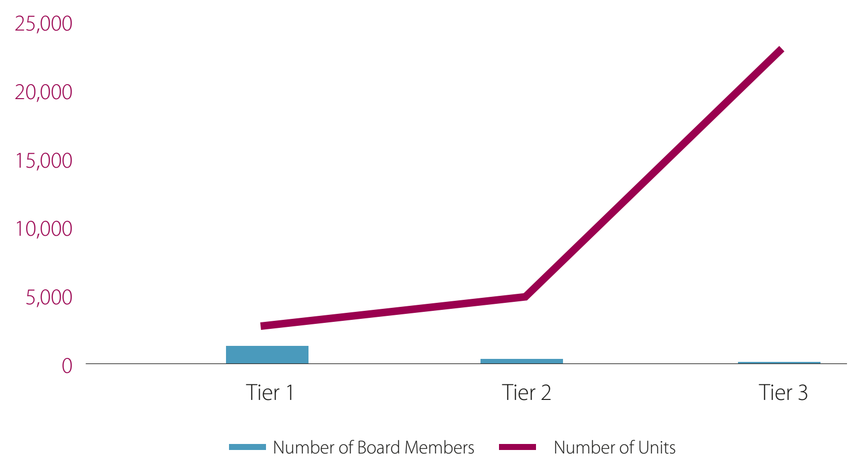
The Governance Standard for the AHB sector was launched in November 2017. It was developed in consultation with the sector through a series of working groups. A number of AHBs have indicated that they have completed a gap analysis of their existing governance arrangements against the Standard, identifying areas for further development. It is anticipated that the Standard will provide a strong framework for AHBs to work towards as they continue to enhance and embed their governance. The timeline for implementation has been phased by Tier over the years 2018-2020.

Board Membership, Meetings, Policies & Sub-Committees

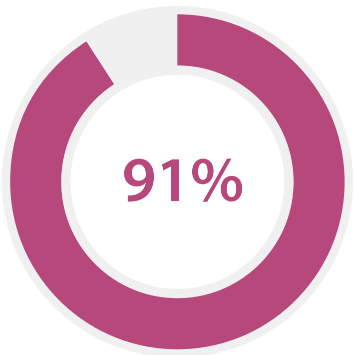
AHBs reported a total of 1,936 Board members across 247 organisations. Tier 1 AHBs account for the majority of Board members with 1,320 reported. Tier 2 AHBs reported 435 Board Members, while Tier 3 AHBs reported 181 Board Members.

95% of AHBs report that they meet board membership requirements. 12 AHBs reported that they did not meet the requirement for a minimum of five Board members.

Board members and Units



The chart on previous page plots the inverse relationship between the number of Board Members and the number of units managed by AHBs. Tier 1 AHBs reported that succession planning and board recruitment is a key risk. It is noted that Tier 1 AHBs are mainly static in terms of size, reporting limited growth plans. Review of units, board membership and consolidation should form part of the Board's future-proofing discussions.



91% of AHBs reported that the Board held at least four Board meetings per annum, with an average of 7 meetings reported.

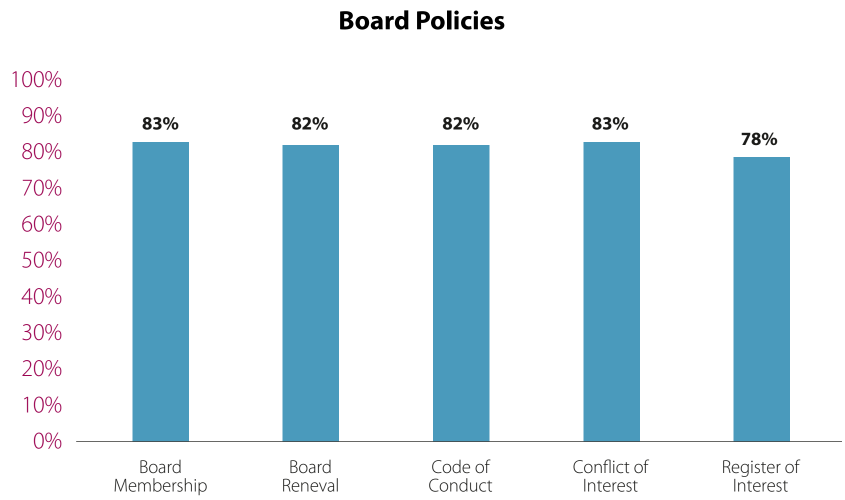
20 AHBs reported that they did not meet the Code requirements. 17 Tier 1s, 2 Tier 2s and 1 Tier 3 reported that they met less than four times.

The Regulation Office continues to work with these organisations to highlight the importance of a properly functioning Board that meets regularly, in order to perform their duties effectively.

The Sector reported an increase in compliance with the required Board policies year over year. However, despite the improvement, a number of AHBs reported that they remain without key policies in place. The Regulation Office will continue to highlight the importance of Boards having the appropriate policies in place.

AHBs reported a diverse range of sub-committees in place, including audit and risk, finance, allocations, maintenance and governance.

Overall, 89% of Tier 3 AHBs, 76% of Tier 2 AHBs and 47% of Tier 1 AHBs reported that there was at least one sub-committee in place within the organisation. The most commonly reported sub-committee in place for a Tier 3 organisation is an Audit & Risk Committee which will be discussed further under Finance.



Group Structures and Related Parties

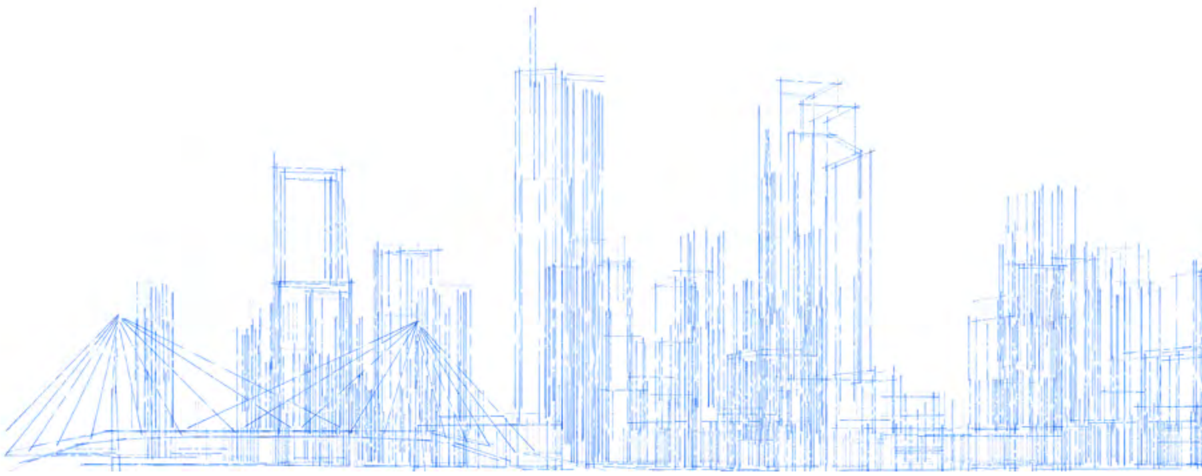
AHBs continued to highlight the varied and complex working relationships that exist between organisations.

Where entities have related parties, the relationship and arrangements between the parties must be formally recorded. The Board is expected to ensure that there are contractual agreements in place which defines all aspects of the relationship and how the relationship operates.

The AHB sector reported highlevels of related party relationships, with 67% of Tier 3 AHBs and 56% of Tier 2 AHBs reporting that they had some form of related parties. The table below demonstrates the relationships across common directors, shared services, SLA's, financial transacations and contractual arrangement. AHBs continue to work towards ensuring there are documented procedures in place, ensuring effective governance arrangements relating to common directors, shared supports & services and financial management.

AHBs are required to evidence independent governance, separation of roles and duties, formal documented arrangements and 'at arms-length' decision making between themselves and any related party(s).

	Tier 3 AHBs	Tier 2 AHBs
Share Common Directors	92%	64%
Shared Services/Supports	75%	61%
Service Level Agreements or Memorandum of Understanding Governing Services and Supports	67%	53%
Financial Transactions between related parties	58%	79%
Contractual arrangements governing Financial transactions	57%	59%



4. Funding and Staffing

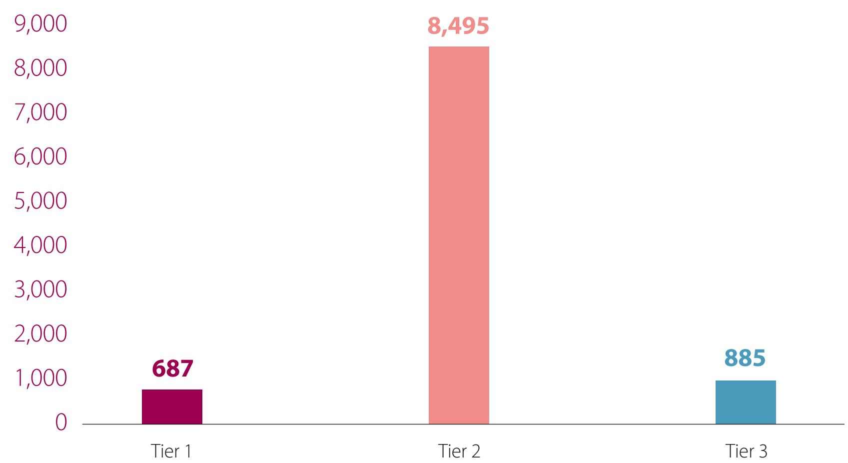
Supports & Services Funding

The AHB sector reported that it provides a range of supports and services outside its housing management functions. Funding for those supports and services is predominately provided by the HSE, with **40% of all AHBs reporting that they were in receipt of funding from the Health Service Executive**.

Additionally, 78 AHBs (32%) reported that they received funding from other state agencies, including DRHE, TUSLA, Department of Justice and the Department of Social Protection.

Such funding frequently requires AHBs to meet certain operational, governance and financial standards, as set out under service arrangements with key funders. AHBs should ensure they meet all legal and compliance obligations in this respect.

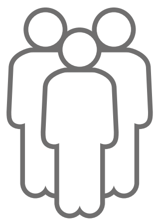
Total number of Staff



Staffing

AHBs reported over 10,000 staff employed. This number of staff highlights the diversity of the sector and the provision of supports and services beyond housing. Tier 2 AHBs account for 78% of all staff reported, with 8,495 staff, with just three organisations reporting 4,568 Staff. These organisations are care, support and services-orientated entities whose operations contain only an element of housing. Staff are reported as directly allocated to frontline services, patient care, health and social care professionals. These organisations own, manage and lease just 334 housing units.

Further analysis highlights that Tier 3 and Tier 2 AHBs reported that they have 1,236 staff employed directly in the provision of housing. Additional review and analysis of staff resources allocated to property, asset and tenant management will be conducted in the coming year.



1,236

Further analysis highlights that Tier 3 and Tier 2 AHBs reported that they have **1,236 staff employed directly in the provision of housing.**

5. Asset and Performance Management

Performance Standard

The Performance Standard is anticipated to be issued in December 2018. The standard has been developed in consultation with the sector through a series of working groups, surveys and consultation and has been tailored to best reflect the performance management requirements of the sector.

The performance standard sets out the regulatory expectations and outcomes required of each AHB in relation to service performance. It incorporates areas in relation to People, Property and Performance, including asset management, housing management systems, policies and procedures by which tenants and their homes are protected.

The Standard complements the existing Financial and Governance Standards and draws on best practice from Housing Regulators in other jurisdictions.

Performance

Performance management is central to ensuring that AHBs deliver quality, affordable housing and tenant-focussed housing services. AHBs are required to demonstrate tenant focused outcomes, pro-active management of income, allocations, communication, voids, arrears, asset management, sinking fund provision and stock condition surveys. Executives and Boards should ensure they have appropriate performance management indicators, evidence value for money and ensure their plans are integrated to operational and financial planning.

AHBs are subject to existing legislative, statutory and compliance requirements and should ensure they are compliant with these obligations.

The AHB sector continues to report increased levels of compliance across performance management. The 2017/18 assessment cycle highlighted that several larger and developing AHBs are investing heavily in asset management, human resource and IT infrastructure systems to strengthen and enhance their housing functions.

Sinking Fund Provision

AHBs reported a marked improvement in sinking fund provision. 94% of Tier 3 AHBs, 73% of Tier 2 AHBs and 72% of Tier 1 evidenced a sinking fund provision.

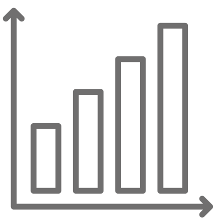
We continue to work with the sector to ensure that all AHBs have the appropriate provision for sinking funds in place, according to the size, nature and scope of their housing stock. The Regulation Office is cognisant of the changing accounting treatment for sinking funds in line with the accounting standard FRS 102.

Stock Condition Surveys

89% of Tier 3 AHBs reported they conducted a stock condition survey, with 83% of those surveys externally validated. 64% of Tier 2 AHBs reported they carried out a stock condition survey, with 49% of those reporting the results were externally validated.

A stock condition survey is the key component of an asset management strategy. Its purpose is to advise the Board and Executive of the condition of the stock, which enables informed decision making. It allows a programme of responsive, planned and cyclical maintenance to be established, alongside informing the long-term stock investment required over a 30-year period.

Only 32% of Tier 1 AHBs indicated the completion of a stock condition survey. It is noted that it is a Code requirement for these organisations from 2017 onwards and it is anticipated that there will be a significant improvement in the reporting and undertaking of these surveys in the 2018/19 Assessment cycle.



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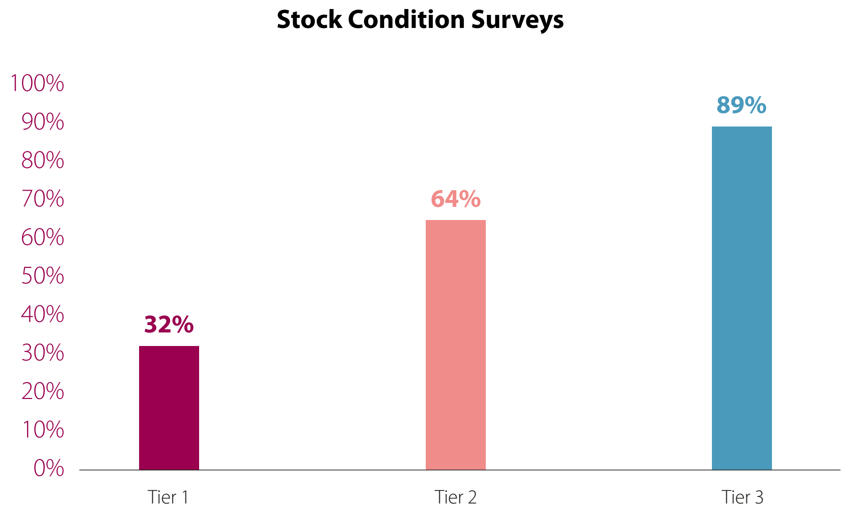
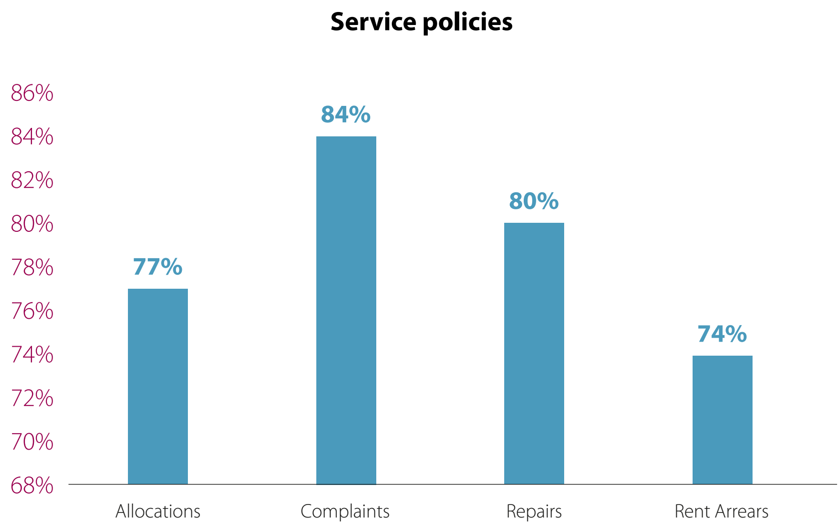


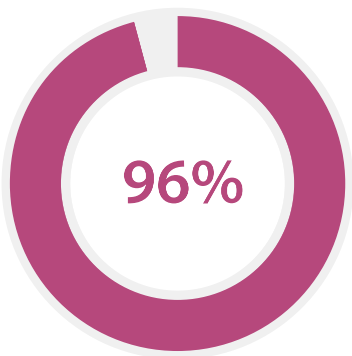
Performance Management, Policies & Communication

The 2017/18 cycle indicated that 87% of the AHB sector reported that they had some type of performance management structure in place, providing the ability to report and analyse the number of voids, length of voids, rental income due, rental income collected, rental arrears and emergency, urgent and routine repairs.

The analysis conducted indicated an improvement across all Tiers, with Tier 1 organisations reporting a substantial improvement upon the previous year, which should be recognised and commended.

The Sector has reported an increase in the adoption of Tenant Service policies. However, despite the improvement, a number of AHBs indicated that they remain without these essential policies. Good quality tenant service policies allow AHBs to operate in an open and transparent manner, for the benefit of both the tenant and the AHB. In line with the launch of the Performance Standard it is anticipated that there will be increased compliance in this area.



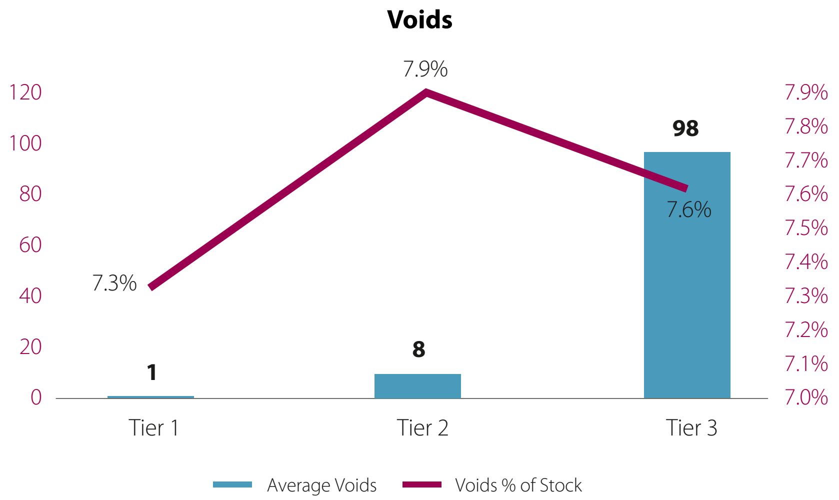


96% of all AHBs reported that they actively engage and communicate with tenants.

Overall, 67% of all AHBs indicated they provided pre-tenancy training, while 75% of all AHBs reported they provided a tenant handbook. 89% of all AHBs reported they provided rent records to their tenants. 24 AHBs reported they do not meet this statutory requirement.

While it is apparent there has been an improvement year on year, it is evident that further development and advancement is required across this important area of tenant communication and tenant management.

Tier Level	Tenant Communi-cations	Pre-tenancy Training	Tenant Handbooks	Rent Records
Tier 1	98%	62%	73%	90%
Tier 2	92%	73%	73%	86%
Tier 3	94%	94%	94%	94%
Totals	**96%**	**67%**	**75%**	**89%**



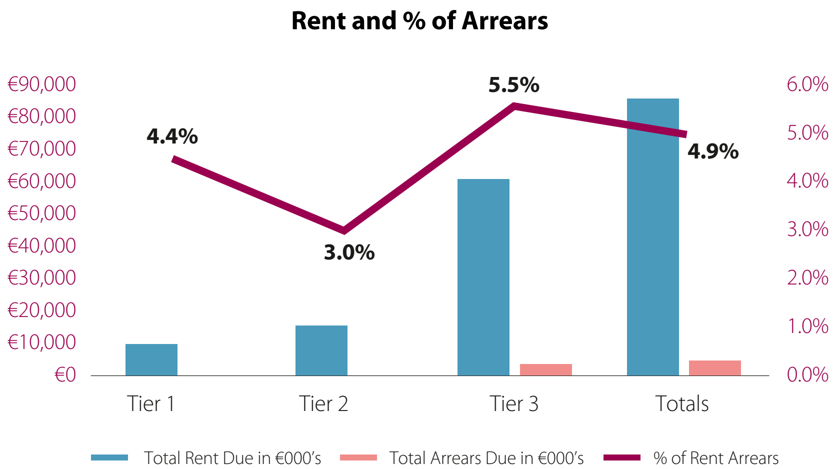
Voids, Rental Arrears, Repairs and Asset Management

The average number of voids reported was 11, representing an average of 7.6% of stock. The average length of voids was reported as 11 weeks.

AHBs report multiple reasons for the length of voids with the most frequently reported being the delays experienced with nominations from local authorities and the need to carry out repairs between tenancies. Voids remain a key focus of the regulatory framework with AHBs required to demonstrate active management of voids and an awareness of the loss of income resulting from voids.

The Regulation Office reviews voids in line with projected growth and recommends where AHBs are reporting high levels of voids alongside high forecasted growth, that Boards should consider this as part of the appraisal and feasibility process.

The pro-active management of rental arrears is an integral part of performance, tenant and housing management. AHBs reported arrears of approximately €4.2M or 5% of total rent due.

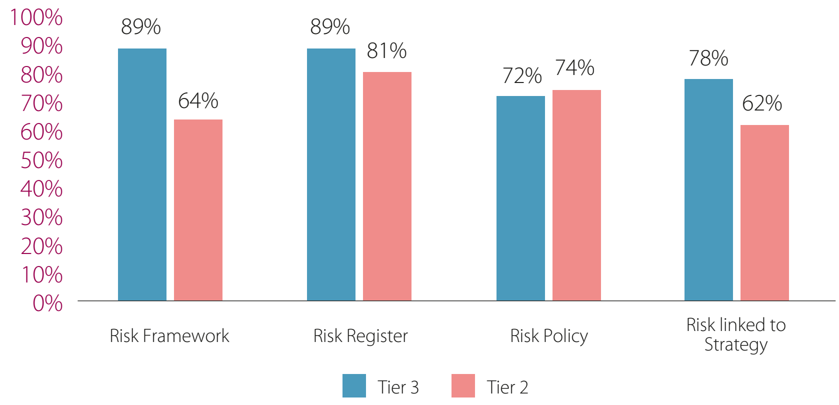


80% of AHBs reported the ability to provide information in relation to repairs. Forty-five AHBs (20%) were unable to provide information in relation to repairs, which is a requirement of the Code and an essential element of Housing, Tenant and Asset Management.

89% of Tier 3 AHBs reported they have an Asset Register in place, while 88% of Tier 2 organisations reported that they also maintained an Asset Register.

The Performance Standard and Assessment Framework will further develop the regulatory framework for the AHB sector and should support and assist in building the capacity of AHBs to deliver excellent tenant services and to manage stock efficiently and effectively. Voids, rental arrears, and repairs represent significant income losses and large areas of expenditure to the sector and it is anticipated that continued advancement in these areas are forthcoming.

Risk Framework



6. Risk Management and Audit and Risk Committees

Risk Management remains a key component of the successful management of AHBs. The assessment cycle provided assurances of continued strengthening and embedding of risk management across the Sector.

89% of Tier 3 organisations reported that they had a risk management framework, with 89% reporting a risk register, 72% risk policy and 78% stating that risk management is linked to the strategy of the organisation.

64% of Tier 2 organisations reported that there was a risk management framework, with 81% reporting a risk register and 74% of these reporting a risk management policy.

The above table outlines Tier 3 and Tier 2 AHB's risk frameworks.

Larger and developing organisations have identified key risk areas as classification impact, legislation, rapid growth, IT infrastructure, inflationary costs, human resources and capacity to support development in significant growth environments.

Audit and Risk Committees

Larger and developing organisations are required to have an Audit and Risk Committee in place. 89% of Tier 3 AHBs and 66% of Tier 2 AHBs reported that there was an Audit and Risk Committee in place. Boards are increasingly reliant on Audit & Risk Committees to oversee financial planning, internal controls, risk management, key risk indicators and debt capacity. Their role in oversight of these areas is vital, but ultimate responsibility remains with the Board.

While Tier 1 AHBs are not required to have an Audit and Risk Committee, it is a matter for the governing body of each individual organisation to consider, depending on the scope and needs of the organisation, and particularly if an AHB is planning to grow significantly in the coming years.

7. Financial Management and Forecasting

Financial Management

The Regulation Office requires a full set of audited accounts to be submitted annually. The provision of these accounts is a vital input to enable the Regulation Office to undertake a detailed evaluation of the financial viability of the AHB. Whilst we continue to see high levels of compliance from larger AHBs, there is increasing evidence that smaller AHBs are filing abridged accounts with the CRO.

Abridged accounts do not provide full transparency in relation to an organisation's financial viability. The filing of abridged accounts has been identified as a worrying trend by a number of key stakeholders in the charitable sector.

Financial Standard

10 Tier 2 AHBs participated a pilot for the Financial Standard during the 2017/18 Assessment Cycle. The cohort of participants reflected the diversity of the sector, which greatly informed the outcomes and findings of the pilot. Key findings highlight a significant level of variability and ability to meet the Financial Standard requirements in full. The pilot identified that growth is predominately forecasted to be financed by CAS, with limited evidence of private funding reported. In line with risk-based regulation, a full review of the development plans of Tier 2 AHBs will be conducted, alongside the guideline threshold within the Financial Standard in 2019.

Additionally, fifteen Tier 3 AHBs submitted detailed financials in line with the Financial Standard requirements. This is the third year that Tier 3 AHBs were assessed under the Financial Standard. A number of organisations were not in a position to complete the Financial Standard requirements in full, due to inadequate line of sight on direct housing assets and the financial information associated.

The Regulation Office acknowledges the significant commitment made by Tier 3 AHBs and pilot Tier 2 in delivering on the Financial Standard in 2017/18.

From the Regulation Office's perspective, key sectoral risks identified during the 2017/2018 assessment cycle centre around execution risk and cash flow management associated with the quantum leap anticipated in unit delivery. It is likely that these risks will remain into the foreseeable future. The Regulation Office continue to review AHB's management and mitigation of these risks through appropriate stress testing of variables and strong oversight.

The Regulation Office will pay particular attention to growth organisations to ensure that they have the resources and capacity in place to manage construction projects, increasing private debt portfolios and management of on-going growth programmes, including the practical management of execution risk of bringing large increases of new stock into management.

Overall, there has been an improvement in the level of information provided by Tier 3 AHBs and compliance with the Financial Standard, particularly in relation to the development of Business Plans and 30-year financial projections.

AHBs continue to strengthen stress testing of business plans and 30-year financial projections against a series of business and financial assumptions. This remains a vital element of planning and decision-making process. Further enhancement of oversight and alignment between strategic goals, business and financial planning has been identified across the larger growth organisations.

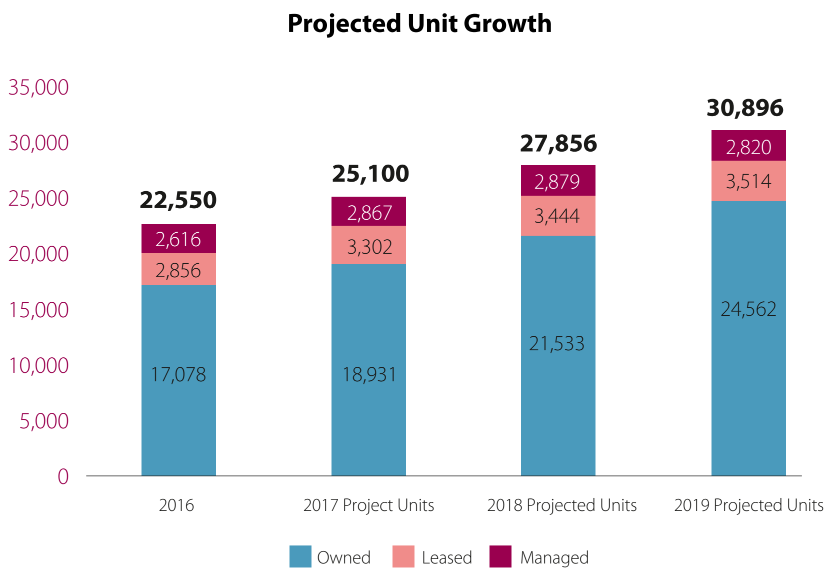
17 Tier 3 AHBs Projected Unit Growth

Projected growth plans are indicative only and subject to change due to a range of factors.

In total, seventeen Tier 3 organisations projected housing unit growth of 8,346 units over a three-year period from 2017 to 2019. This is equivalent to projected growth of 37% over the three-year period.

AHBs reported that 7,484 units or 90% will be concentrated in the development or acquisition of owned units. Forecasts indicate an increase of 8% in leased units and a small increase in managed units over the same period of 2%.

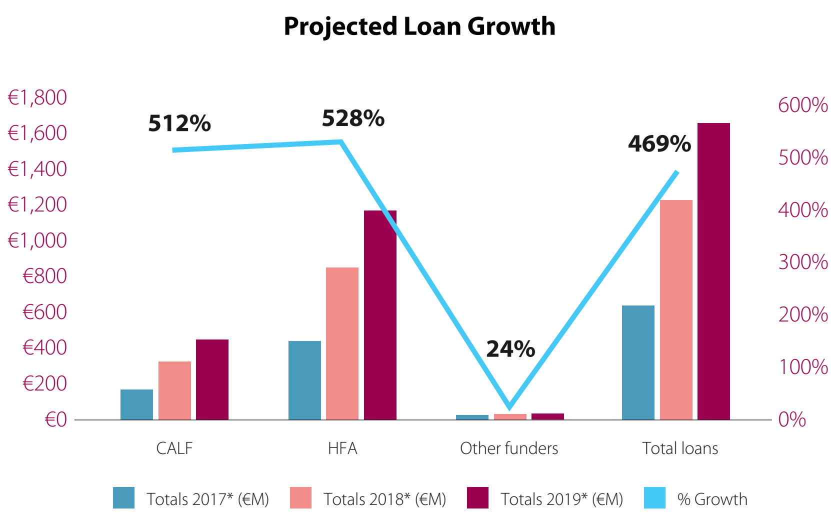
Significant unit growth is concentrated within a small number of Tier 3 AHBs. Of the 8,346 growth units forecasted, 68% or 5,675 units is forecasted by just four AHBs, the remaining 2,671 units is distributed across the remaining 13 Tier 3 AHBs.



Projected Loan Growth

Tier 3 AHBs, with capacity to complete the Financial Standard requirements in full, reported that the unit growth will be predominately funded by CALF and financing from the Housing Finance Agency, supported with payment and availability agreements.

AHBs reported that private loans, excluding CAS and CLSS, are anticipated to grow from €296M in 2016 to €1,683M by 2019, a growth of 469%. The Housing Finance Agency is forecasted to continue to be the dominant provider of long-term financing increasing funding from €189m to €1,185m, representing 528% growth in the period.



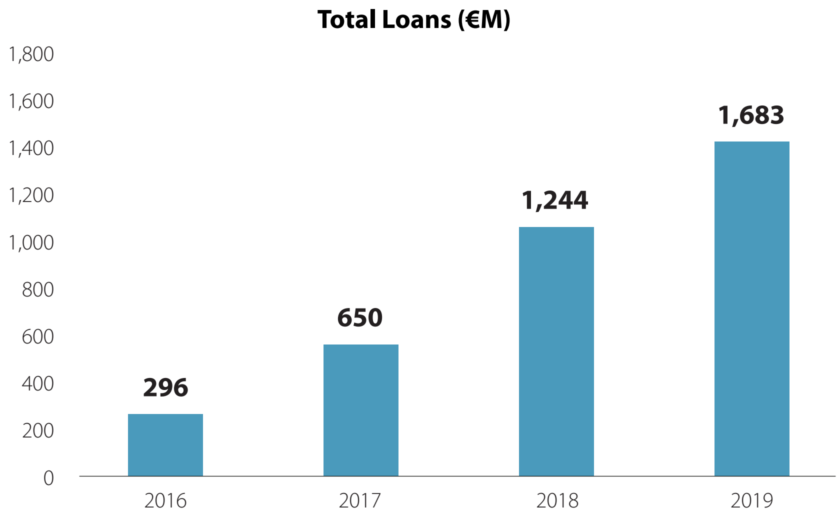
The current financial forecasts indicate a limited diversification of funding sources over the period 2017-2019.

The Regulation Office believes that the availability of funding on attractive terms means that financing is not currently a major limiting factor to supporting unit delivery.

There is some limited evidence emerging that new, innovative funding mechanisms are under consideration which makes use of Special Purpose Vehicles (SPVs) / joint ventures to access both domestic and European funds. This attractive off-balance sheet funding may be available on very attractive/ competitive terms from banks/ institutional funds who are natural, long-term funders with experience in social impact/ and housing development funding. This new funding landscape may be impeded in the short term to medium term following the reclassification of the sector.

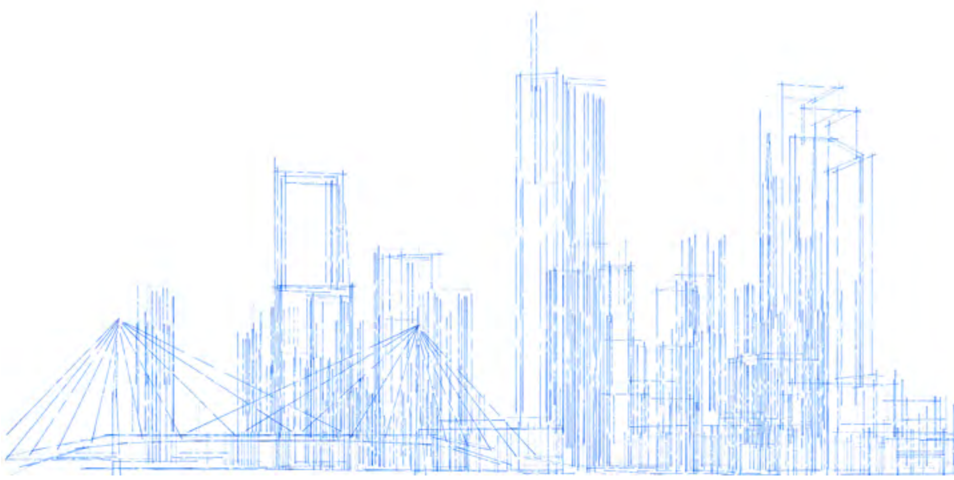
Should these important innovative funding structures emerge, this will bring both opportunities and challenges for boards and senior executives of AHBs. Debt-based funding will require greater awareness and management of funding risks and the development of customised Treasury Management Policies.

The Regulation Office will seek assurance that Boards of Tier 3 AHBs in particular have the appropriate skills and experience to review and challenge debt funding proposals to ensure safe and sustainable growth of the organisation (a key Regulatory requirement) at a time of rapid growth with attendant increase in risks.



Further analysis of the loan data submitted indicated that a relatively small number of Tier 3 AHBs currently account for the majority of private finance loans within the sector. This is projected to continue into the foreseeable.

Six Tier 3 AHBs accounted for 92% (€274m) of loans in 2016. By 2019, these six organisations will account for 86% of loans as the use of private finance funding broadens slightly to other Tier 3 AHBs. This concentration is further confirmed with one AHB expected to account for approximately 33% of total loans by 2018.



Chapter 3:
Tier 3 AHBs Aggregated Accounts

The following aggregated financials represent 15 Tier 3 AHBs and associated analysis. Tier 3 AHBs represent the larger, more complex organisations. These organisations demonstrate high exposure to loan financing and forecasted growth than other parts of the sector. Detailed financial information for three Tier 3 AHBs was not available.

These figures are for reference and indicate purposes only.

Aggregated Income and Expenditure Account – 15 Tier 3 AHBs

	2015 €M	2016 €M
Total income	**122.4**	**159.6**
Total operating costs	-91.6	-118.3
Operating Surplus	**30.9**	**41.4**
Int receivable	0.8	0.7
Int payable	-3.3	-6.2
Net Surplus	**28.3**	**35.9**

Aggregated Balance Sheet – 15 Tier 3 AHBs

	2015 €M	2016 €M
Social housing properties net book value	1,722	1,921
Other Fixed Assets	7	11
	1,728	**1,931**
Current Asset		
Cash	45	60
Debtors	39	44
	85	**104**
Creditors falling due within one year	-30	-42
Net Current Assets	**54**	**62**
Total Assets less Current Liabilities	1,783	1,994
Long term loans	**-121**	**-281**
Deffered income net	**-1,375**	**-1,318**
Other long term creditors and provisions	**-5**	**-30**
Total Net Assets	**282**	**365**
Reserves (including capital grant amortisation)	242	308
Designed Reserves: Maintenance/Sinking Fund	39	57
	282	**365**

Aggregated Balance Sheet – 15 Tier 3 AHBs

Income increased by 30% in 2016. Of this growth, 19% relates to the inclusion of the additional AHB, with 11% representing a healthy growth in core income due largely to the increase in development activity in the year. The 2015 financial reporting included an adjustment for the adoption of FRS102. The 2016 income is reported on a consistent basis with the previous year and includes capital grant amortisation

Operating expenditure increased by 29% in total and by 15% after adjusting for the new AHB. Overall AHBs have managed growth, containing cost increases at a level slightly below the increased income generated.

Operating Margin has increased slightly from 25% to 26%. As the accounting basis is consistent between the two years, this illustrates the impact of slightly improved performance on new developments and that the inclusion of the additional AHB for the year has not impacted on the overall performance reported for the sector.

Housing Properties are shown at Net Book Value consistent with the reporting basis in 2015. Net Book Values have increased by €199m (12%) of which €31m relates to the additional AHB. Core growth being 10%. The level of growth illustrates the significant impact of AHB development programmes over the year.

Debtors and cash: Debtors increased by 13% reflecting the growth in rental income and hence rental debtors and deposits in the early stages of developments. Cash has increased by 32% of which 18% is accounted for through inclusion of the additional AHB, overall core growth being 13%. The balance reflects the increased development activity, with a degree of funds being secured in advance of expenditure incurred.

Creditors: Total loan creditors (short and long-term) have increased by 114% with long term loans having increased by 132% as a result of AHBs gearing up borrowing to fund the greatly increased development programmes. The inclusion of the additional AHB has had minimal impact on this figure as the AHB has relatively low borrowing.

Deferred income and grants have decreased by 4%. This is due to the impact of greatly reduced grant levels under the new funding regime and the impact of the amortisation of the proportionally higher historic grants over the life of the relevant assets under FRS102.

Reserves have been reported consistently with last year and include Income and Expenditure Reserves and Capital Grant Amortisation reserves. Although Major Repairs Reserves should be transferred to general reserves in accordance with FRS102 a number of AHBs continue to operate designated Major Repairs Reserves which are shown in the aggregated accounts. General reserves have been boosted by the cumulative amortization of grants to date and reduced by the cumulative depreciation of properties to date.

EBITDA interest covers has fallen from 685% to 476% due to the introduction of further private finance. The ratio indicates that the sector still has access to considerable additional borrowing capacity.

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