

Regulation & Risk Management

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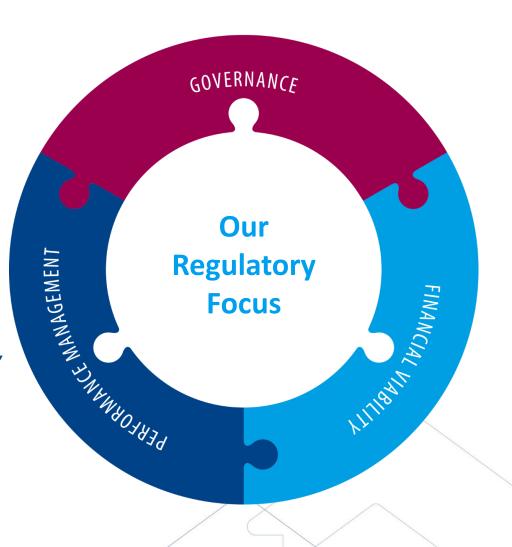
'Governance in a Growth Environment' Alex Hotel, Dublin 2 24th September 2019

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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
 - o Performance



Stock





- 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

Totals 33,945

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
- Bill Published: July 2019



Regulatory Framework: VRC +



Proportionate

Transparent

Risk Based

Comply or Explain

Financial Standard

Financial Viability

- Surplus/Deficit
- Liquidity
- Cashflow

L-T Viability

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

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

Sector Context

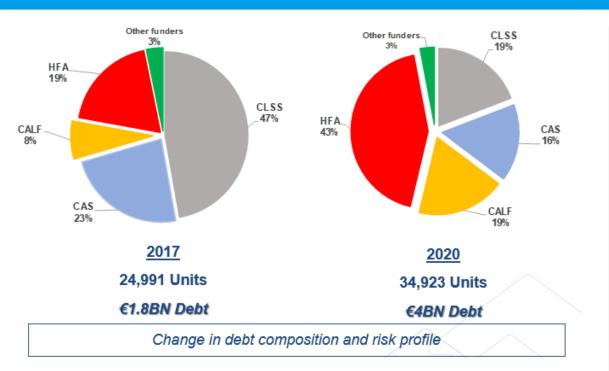


- Significant 'concentrated' Growth
- Balance Sheets & Debt Profiles changing
- Substantial investment in Operational, HR & Infrastructure
- Changing Environment & Delivery Structures
- Risk Management and robust challenge needs to be fully integrated
- Understanding & application of Risk is KEY

Risk is NOT just about Finance

Growth Context – AFR (17 T3 AHBs)





2020	2019	2018
3,870	3,670	2,392
9,932		

- Tier 3 AHBs significant growth forecasted
- Change in debt profiles
- Risk Management critical in growth environment
 - Liquidity
 - Cashflow forecasting
 - Project Financial Feasibility
 - Loan repayment scheduling
 - Covenants
 - Sinking Fund provision
- Delivery is KEY but needs to be sustainable

Figures are not audited, consolidation for directional purposes only

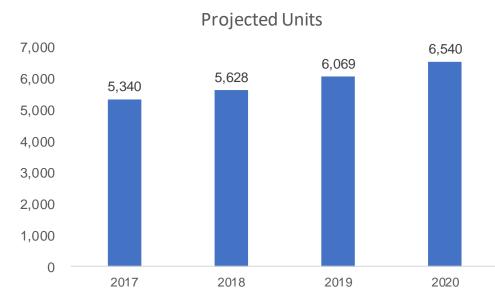
Projected Growth- T2 AHBs





2018	2019	2020	
288	441	471	
		1,200)

- Modest growth forecasted
- Growth concentrated small number of AHBs
- CAS and loan financing
- Debt profile of BS not changing significantly



Identified Risks



- 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

- Complexity of Sector
- Classification
- Funding

EXTERNAL RISK

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

Risk & Governance

Risk Maturity Ladder



Where is your organisation?

Risk Intelligent Integrated Top Down Fragmented Initial · Ad hoc/chaotic Risk defined Identify risk Risk discussion Risk differently in embedded in universe management Depends on different parts of activities strategic individual the organization Common risk coordinated planning, capital allocation, etc. across business heroics, assessment / capabilities Risk managed in response areas and verbal silos Early warning system to notify wisdom Organization- Risk analysis Limited focus on wide risk tools developed board and the linkage and assessment. management of between risks action plans communicated risks above established implemented in thresholds Limited alignment response to Enterprise risk of risk to high priority monitorina. strategies risks measuring and Linkage to reporting performance Communication Disparate measures and Scenario incentives monitorina & of top strategic risks to senior reporting planning functions leadership Risk modeling Opportunity risks identified and exploited On-aoina risk assessment

processes

Risk Management





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

A Risk Register does not constitute good Risk Management

Governance & Risk

housing agency regulation office

- Understanding your organisation
- Governance
 - Robust Discussion
 - Clear Objectives Short & Long Term
 - Skills, expertise & composition
- Board owns & understands risk
- Risk Framework in place who is responsible for what, when, where
- What's the **Assurance** Framework
- Risks and decisioning
- Risk Culture & Appetite
- Understanding risks and controls



Key Pointers for the Board



- 1. Stay out of the **Weeds**
- 2. Objectives **Risks** Appetite Outcomes
- 3. Establish what are the **real risks** to your organisation
- 4. Ascertain who is responsible for whatrole of Executive, ARC...ToR
- 5. Differentiate between **BAU**, **Transition and Growth**
- 6. Ensure Risk is linked to Strategy, Objectives and Audit Outcomes
- 7. Don't just kick the Tyres.....Look under the bonnet

Ask all the uncomfortable questions.....seek Assurance

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?

Evidence & Assurance that risk management is embedded & robust

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





- Emerging Risks
- Mitigated Risks
- Change in Strategy/purpose

Monitor &

Report

- Prioritise
- Communicate
- Rank
- Standardisation
- Observation V action risk
- Residual Risk*
 - Tolerate
 - Treat
 - Substitute
 - Terminate
- Consider reassessment

Identify

- Risk Categorisation
- Owners
- Controllable/Non Controllable

Quantify & Assess

- Impact
- Likelihood
- Inherent Risk
- Prioritisation

Mitigate

Challenge & Evaluate Controls

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

Risk is NOT static, its continuously evolving

Final Thoughts

Risk Maturity Ladder



Now, really where are you?

Fragmented Initial · Ad hoc/chaotic Risk defined differently in Depends on different parts of individual the organization heroics, capabilities Risk managed in and verbal silos wisdom Limited focus on the linkage between risks Limited alignment of risk to strategies Disparate monitorina & reporting functions

Top Down

- Identify risk universe
- Common risk assessment / response
- Organizationwide risk assessment, action plans implemented in response to high priority risks
- Communication of top strategic risks to senior leadership

Integrated

- Risk management activities coordinated across business areas
- Risk analysis tools developed and communicated
- Enterprise risk monitoring, measuring and reporting
- Scenario planning
- Opportunity risks identified and exploited
- On-going risk assessment processes

Risk Intelligent

- Risk discussion embedded in strategic planning, capital allocation, etc.
- Early warning system to notify board and management of risks above established thresholds
- Linkage to performance measures and incentives
- Risk modeling

Key Takeaway's



- Know your business
- Know your People, Know your Assets
- Identify REAL risks
- Identify who is responsible for what?
- Embed a risk management culture into your organisation
- Use risk framework to identify opportunities not just RISK

- Have an appropriate risk management model
- Top Down, Bottom Up
- Ensure appropriate challenge
- Risk mitigation & action
- A risk register alone does NOT provide a comprehensive risk framework
- Risk is fundamental to future growth

THANK YOU



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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



Internal

Audit

Regulator

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

Governing Body / Board / Audit Committee Senior Management External audit 1st Line of Defense 2nd Line of Defense 3rd Line of Defense **Financial Control**

Security

Risk Management

Quality

Inspection Compliance

The Three Lines of Defense Model

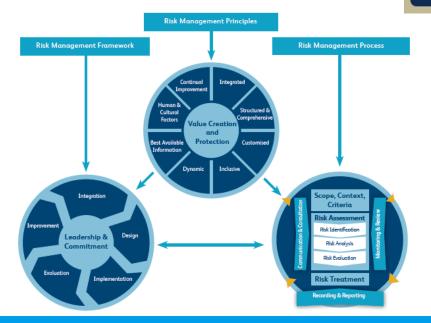
Internal

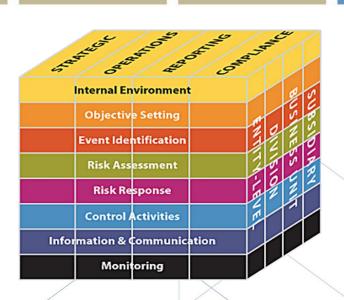
Control

Measures

Management

Controls





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

Risk Management



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