



Llywodraeth Cymru
Welsh Government

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WELSH GOVERNMENT – HOUSING REGULATION

LESSONS LEARNED REPORT

CARDIFF COMMUNITY HOUSING ASSOCIATION (CCHA)

DECEMBER 2018

1. Introduction

The issues at CCHA provide valuable learning for the both sector and the Regulator. The initial response of CCHA meant that the energy of the RSL and Regulator was not focussed where it should have been, addressing the systemic failures, but on establishing whether or not there was a problem. Delays in the concerns being investigated and serious issues being addressed could have been avoided though genuine co regulatory working. We expect future concerns we raise with the RSLs will be addressed co-operatively. If this is not the case we will identify that response itself as a regulatory concern.

This report sets out the problems encountered at CCHA and the lessons learnt, both for the sector and Regulator. Boards should consider these findings and ask themselves what they can learn and whether their current arrangements are sufficiently robust to provide full assurance. They may also want to consider how they would react in similar circumstance and what their attitude to the Regulator would be. This report can be usefully considered in tandem with our recent sector overview report on landlord health and safety based on assurance reports provided by all Welsh RSLs, which can be found here: [RSL Health and Safety Report October 2018](#)

We will continue to work closely with the sector to develop more robust and effective approaches to governance and board assurance, including around landlord health and safety.

2. Background

CCHA is a traditional community based registered social landlord. The Association operates in Cardiff, manages 2840 homes and has around 90 staff.

In September 2017, the Housing Regulation team was contacted by a whistleblower raising issues of concern regarding contract management, procurement and repairs delivery at CCHA. In accordance with the whistle blower procedure, the Regulation team then required the Board to commission an independent review to establish the facts.

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The independent review raised further questions and concerns regarding repairs processes, including prioritisation of health and safety related repairs. These were then the subject of a further independent review which reported in February 2018.

The findings of the various independent reviews, and the inadequacy of CCHA's response to the serious issues being raised by the Regulator, resulted in regulatory intervention. As a consequence, CCHA entered into a voluntary undertaking to address the Regulators concerns in March 2018.

The voluntary undertaking set out the actions CCHA would take in response to the concerns which related primarily to quality of:

- Board assurance on health and safety matters as well as the repairs and maintenance services;
- Governance and board assurance arrangements;
- Risk management;
- Approach to co-regulation.

In February 2018 the CCHA Board commissioned further reviews as they weren't satisfied with the scope of the initial review, these were undertaken by their internal auditors. In discussion with the Regulator they agreed to implement the resulting recommendations and improvement actions to an agreed timetable. A [Regulatory Judgement of intervention for CCHA](#) was published in March 2018.

During the months since its regulatory judgement, CCHA has made very good progress in addressing the issues of concern – including both the initial concerns and those raised by subsequent reviews.

3. Lessons and Recommendations

A new element of the revised Regulatory Framework launched in January 2017 was that lessons learned from cases where a judgement of intervention or statutory action arose will be shared publicly.

The lessons and resultant recommendations from CCHA strongly echo the recommendations which emerged from our analysis of board assurance reports on landlord health and safety which was published in October 2018.

The quality of board assurance at CCHA was very poor

Reports were presented to Board but these did not provide meaningful assurance because:

- Board members often did not understand the implications of the data being presented;
- The Board did not adequately challenge the picture being presented in the reporting;

- The Board were over reliant on assurance provided by staff;
- Reporting was focussed on financial risks with insufficient emphasis given to health and safety and other key risks;
- The Board had insufficient focus on landlord health and safety and, as a result, lacked an understanding of whether the arrangements in place were robust enough to keep their tenants safe;
- The wording of reports was not sufficiently clear and unambiguous in identifying areas of risk.

Recommendation 1

RSLs need to clearly demonstrate excellent governance and robust Board assurance as to the effectiveness of their landlord health and safety arrangements and be able to evidence Board ownership of landlord health and safety performance.

Recommendation 2

Across the business, Boards must adopt a structured approach to assurance which enables Board members to feel confident in the information they receive and use to inform decision making. They must also feel confident to question / constructively challenge this information.

Recommendation 3

Boards must ensure that they have the collective skills and experience to fully understand the data and reports being provided. Boards must be able to identify when there is a skills and experience deficit and be able to fill that gap easily and quickly.

Recommendation 4

Boards must apply critical thinking to reports and data provided ensuring that they appropriately challenge and question what is presented to them.

CCHA was over reliant on data which transpired to be flawed and inaccurate

- The Board and senior staff were reliant on the data being produced by the organisation's internal systems which scrutiny revealed was seriously inaccurate. For example, detailed scrutiny found that a large number of electrical safety inspections were outstanding;
- No one – staff, board or audit – had challenged data quality or requested validation of critically important data.

Recommendation 5

RSLs should assure themselves that their data integrity/validation processes are sufficiently robust and fit for purpose.

Recommendation 6

RSLs should consider whether they need to do more to ensure data integrity e.g. through regular data integrity audits.

Recommendation 7

RSLs should consider phasing out any data storage/compliance systems that are easily corruptible and can result in inaccurate data, for example spreadsheets.

Recommendation 8

RSL Boards should consider whether they truly understand the implications of the data they are considering.

CCHA's board relied on an internal audit approach which was not robust

The Board relied on internal audit to provide assurance but did not have a robust approach to audit scoping, implementation of audit programmes and response to audit recommendations.

- Key internal audits were subject to repeated delay without challenge from the Board;
- Actions from completed internal audits were repeatedly delayed again without board challenge;
- The Board did not always understand the internal audit reports being provided to them;
- Board members did not have a sufficiently robust grasp of the remit and responsibilities of the Audit Committee and the Chair of Audit, or their relationship with the Board as a whole.

Recommendation 9

RSLs should consider whether the frequency, scope and robustness of their internal audit of landlord health and safety provides them with adequate assurance.

Recommendation 10

Board members should ensure that they have the opportunity to discuss internal audit reports and findings direct with the internal auditor.

Recommendation 11

Board members should ensure that they have clarity on the remit and responsibility of the Audit Committee and the Chair of Audit and their relationship to the Board as a whole.

The prevailing culture at CCHA was inappropriate and unhealthy

The prevailing culture across the organisation, most notably at senior staff and board level, was inappropriate and unhealthy.

- The Board was over reliant on the views and preferences of its long standing executive team resulting in a lack of challenge;
- The power relationship between the Board and the executive was imbalanced and immature;
- The Audit Committee failed to provide necessary close scrutiny and challenge;
- A laissez faire, often self congratulatory, attitude pervaded the work of the Board with little real understanding of their leadership role.

Recommendation 12

RSLs should consider whether their organisation has an appropriate and robust internal culture which supports appropriate roles and relationships and constructive challenge.

CCHA responded inappropriately when the Regulator raised concerns

CCHA responded inappropriately to issues of concern raised by the Regulator.

- Rather than focus on the serious issues being raised and on resolving concerns, both Board and executive focussed their energies on denying and seeking to disprove that there was a problem. This resulted in considerable delay in concerns being investigated and the serious issues being addressed;
- The Board felt the need to take sides – backing the Executive team against the Regulator;
- The Board clearly did not understand its own role and that of the Regulator when serious issues of concern are raised. The Board did not take responsibility for addressing the concerns but passively waited to be told by the Regulator what to do, all the while denying there was a problem;
- The organisation singularly failed to demonstrate a co-regulatory approach. Specifically, in its response to issues concerning the safety of tenants, it failed to live up to its long stated commitment to the interests of, and legal responsibilities to, its tenants;
- The Board was overly focussed on development and new initiatives with insufficient focus on its core services.

Recommendation 13

When serious concerns are raised, RSLs and the regulator must be co regulatory. It is reasonable to seek clarity around any concerns but this must not prejudice progress on investigating and resolving issues.

Recommendation 14

Boards need to understand the respective roles of the RSL and the Regulator when serious issues arise. When there is Regulator involvement, the RSL retains responsibility to address the concerns promptly and appropriately.

Recommendation 15

Boards must not allow development and new initiatives to dominate their agenda at the expense of attention to core services.

The Regulator's approach to whistleblowing needed to be clarified

The issues which gave rise to regulatory intervention at CCHA were initially raised via a whistleblower. We know from the experience of other housing regulators that, in a mature regulatory environment, concerns are very often raised by whistleblowing and this will always be the case. To ensure a consistent and appropriate response, we have developed a procedure on whistleblowing which has been agreed by the Regulatory Advisory Board (RAG) and Regulatory Board Wales (RBW). It can be found on our website – [Whistleblowing procedure](#)

Effective co-regulation and early self reporting of issues can provide the opportunity for joint working to prevent issues developing into situations where whistleblowing occurs which is in the best interests of all parties.

CCHA were not considered a high risk organisation prior to this regulatory intervention

Our involvement with CCHA since autumn 2017 has revealed significant governance and service delivery weaknesses. Until this point, the organisation was, from a regulatory standpoint, not a high risk organisation. As a result, we have asked ourselves – what, with the benefit of hindsight, were the warning signs that we, and the sector, need to be more alert to in future?

For the future, the Regulator needs to understand the warning signs and change our the way we work to ensure we are focused on “the right stuff”

In section 4, we have set out the warning signs which we will use to inform development of our operational approach to regulation in the future.

In section 5, we have set out what we are already doing differently as a result of the learning from CCHA and other complex cases.

We recognise this will be a work in progress and that we need to continually learn and develop our regulatory practices.

4. Warning signs

An awareness of the warning signs will help the Regulator and the sector be more alert in the future.

Internal audit issues

- Delayed audits and delays in implementing post audit actions
- Inappropriate responses to internal audit reports;
- Unclear language and insufficient narrative in internal audit reports;
- Internal audit programmes driven by the Exec rather than the Board and overly focussed on financial risks with insufficient attention given to health and safety and other key risks;
- Infrequent and inadequately scoped internal audits;
- Poor quality board questioning of internal audit report findings; recommendations and staff responses.

Lack of focus on data integrity/ reliability

- No data integrity assurance;
- Multiple unrelated systems for gathering data;
- Use of unreliable systems for gathering data e.g. multiple spreadsheets.

Poor quality governance

This may not present as a particular problem in normal circumstances but is likely to fail when tested.

- Over reliance by Board on assurances by the executive;
- Unhealthy board/ exec relationships and potential power imbalances resulting from a very long standing executive team who had recruited long standing board members and officers;
- Lack of board training and external engagement;
- No recent, robust and credible review of governance;
- Lack of senior housing and business experience of running an organisation around the board table;
- Board focus on development and exciting new initiatives at the expense of focus on core housing services.

5. What the Regulator is doing differently

What is the Regulator doing differently as a result of our experience of CCHA?

We are currently focussing on health and safety risks and requiring specific assurance

We are focussing more on health and safety risks. We have already acted to seek assurance reports from every RSL. We have analysed these and have published key themes and a number of recommendations for action. We will be discussing the assurance reports individually with RSLs and seeking assurance as to implementation of improvement actions.

The serious nature of the issues involved – the health and safety of tenants – has prompted us to depart from our usual approach and require specific assurance reports from Boards, placing the onus on the organisation to demonstrate a robust approach.

We will take regulatory action where organisations cannot provide the assurance we need or where we have identified serious health and safety concerns.

In the future, should other serious issues arise, or if we choose to ‘shine a light’ on specific areas, we may again take the approach of requiring specific assurance.

We will act if the board response when we raise regulatory concerns is inappropriate

We will respond swiftly and decisively where Boards respond inappropriately when we raise regulatory concerns. Where Boards respond with denial, resistance and complaints, we will identify that response itself as a regulatory concern, prompting a wider review of the organisation’s governance quality and potentially prompting a change in regulatory status.

Our focus on governance will widen to consider likely governance response under pressure

We are changing our focus on governance to take into account the warning signs we have identified. We will now consider whether governance arrangements are sufficiently robust enough to function appropriately when seriously tested, i.e. beyond normal day to day activity

We will work with the sector to achieve higher standards of board assurance across the piece

We are already focussed on board assurance and this essential focus has been confirmed by our CCHA experience. We are working with the sector to support improved approaches to board assurance and this is a key focus of our regulatory

oversight. In particular, we have strengthened our focus on the assurance underlying annual compliance statements (Annual Board Statement of Assurance). Boards need to understand their responsibility for ensuring that they have robust evidence as to the accuracy of those statements.

We will be meeting with internal auditors

Internal audit is a key component of assurance to boards. We intend meeting with internal audit firms working with the sector to discuss the issues raised by CCHA around audit scoping, delivery and response to recommendations and how internal auditors respond to lack of action on serious issues identified by internal audit.

We are considering how we support boards when things go wrong

We have also learned lessons in terms of how we respond to difficult issues arising in RSLs. It's clear that what has been our standard practice of seeking experienced co-optees to support Boards when difficult issues arise, is often not enough to support resolution of difficult issues and can place enormous burdens on those who volunteer for co-option. We are rethinking our approach to include encouraging Boards to source the active and intensive support needed when things go wrong. This could, for example, include bringing in a paid independent board advisor, particularly where the issues involved limit the executives' ability to support the Board.

We will move swiftly to resolve regulatory issues when they arise

In hindsight, it took too long to progress resolution of the serious issues of concern at CCHA. In future, we will respond swiftly to such action by Boards and ensure that energy is primarily focused on addressing issues.

We will work with the sector to develop an "under review" notice

Our experience at CCHA has confirmed the importance of continuing discussion with the sector to develop the equivalent of an under review notice system in Wales. We are a small sector in a small country. The grapevine was very aware of "issues" at CCHA many weeks before our published judgement. In the interests of clarity and transparency, the Regulatory Framework needs to have provision to publicly indicate where there are issues resulting in a regulatory judgement being potentially subject to change.

We are working with Community Housing Cymru (CHC) to ensure lessons from CCHA are considered in their work on model rules

In CCHA's case, a rule change excluded the ability to co-opt to the board. This limited the scope to bring in necessary support to the Board and caused complications and delays in making necessary changes to board composition.

Appendix A - Recommendations

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