# Sector Study on Governance of Housing Associations Registered in Wales

Research commissioned by the Welsh Government on behalf of the Regulatory Board for Wales

### Llywodraeth Cymru
### Welsh Government

www.cymru.gov.uk

This research study assesses how well housing association boards meet standards of governance in use across Wales, in particular those of Community Housing Cymru's Charter for Good Governance and supporting guidance, and those of the Regulatory Framework for Housing Associations.

The research was conducted by Campbell Tickell Ltd between March and July 2013.

## Findings Summary

1.  It is clear that much thought and work by boards and senior teams has gone into improving governance over the last few years. The evidence suggests that housing association boards understand very well the *theory* of what they are there to do.

2.  Because organisations are diverse and the research has not been focused on understanding each organisation in detail, it is difficult to make blanket statements about whether 'the sector' meets the specified governance standards.

3.  We have observed examples of excellence which bear comparison with excellence in other sectors, for example in relation to clarity of and investment in shaping the board's leadership role and forging collaborative working with the executive.

4. There has also been evidence to suggest mediocrity or lack of alacrity in some organisations (for example, boards being reactive or appraisal not taking place), and there has been evidence to suggest that some boards and senior teams know they are not yet at the standard they ought to be but are on the journey to get there and need more time to do so (for example in relation to a more systematic approach to seeking board skills).

5. It is clear that some organisations also face barriers that hamper their wish to improve, for example in relation to recruiting key skills or addressing board diversity, having unplanned board change imposed on them (e.g. through local authority elections), sometimes ineffectual involvement of service users in governance, or simply feeling unsure as to the best way to implement a process (such as board appraisal or board renewal and succession planning). Testimony from interviewees suggests that these barriers do impact upon the quality of governance.

6. While prescription in itself is not a cure for all ills, it is unusual (in comparison with other sectors) that there is no Code of Governance for the sector.

7. In terms of how well housing associations foster a governance culture which enables constructive challenge, effective decision making and good outcomes, the research findings suggest that challenge is sometimes very narrowly interpreted as the board operating in an oversight or fiduciary role. There is evidence that some organisations are using the spaces beyond board meetings (e.g. task and finish groups with executive staff) to develop their approach to challenge and support and to operate more in the strategic and generative governance modes that underpin board leadership. A minority do not appear to be engaged in networks and forums outside their organisations. Interviewee testimony also indicates that some boards are overly operational and therefore unlikely to be leading, directing and taking decisions as opposed to simply receiving and approving

executive proposals. In essence, it is difficult to judge from the available evidence how effectively boards engage in shaping strategy and orchestrating what they see as the 'big questions' for discussion for their organisations.

8. Throughout the fieldwork there were some small indicators to suggest (but not conclusively) that a minority of boards do not attain satisfactory standards of governance: they do not understand their role in modelling and framing a culture for their organisations and lack self-awareness of the gap between their own performance and high standards of governance. Examples of these kinds of indicators include insularity, unwillingness to share information with resident structures, resistance to board appraisal, and inappropriate challenging of members of staff.

9. In terms of whether governance arrangements are fit for purpose for meeting future challenges, the predominant view across the fieldwork was that boards and governance need a step-change in order to respond in a managed and proactive way to this changed environment. Mostly, interviewees held a view that this was a shared challenge and that they would benefit from tackling it in a shared way. In practice, the step-change requires the implementation of a range of measures and initiatives, rather than being confined to one big idea or answer.

## Key Findings

10. We set out below some of the findings in more detail against the evaluation criteria derived from the various governance standards identified in the brief.

11. **The role and functioning of the board.** The research found that there is almost comprehensive sign-up to the Community Housing Cymru Charter, and nearly all housing associations have role descriptions in place for board members.

12. Recent thinking around governance across sectors has placed much greater emphasis on board behaviours and culture. In this study, only just over half of associations had in place person specifications, and the variation

of quality and investment in the content of role descriptions, person specifications and codes of conduct reviewed was very wide.

13. Other research suggests that the role of a board member has become much more demanding, a change which is supported by this research. Chairs in particular mentioned the demands of their role equating to a day (or, in one case, a day and a half) per week. Some board members feel at the limits of what they can cope with in terms of what they stress is a 'voluntary' commitment.

14. **Board size and composition.** This study revealed that some of the organisations operating 15-strong boards favour and expect to be able to have smaller boards in the future. The direction of change in the sector is towards smaller sized boards, and some of these have come about as a result of governance reviews.

15. There is a desire to have more flexibility in how board composition dictated by the Large Scale Voluntary Transfer (LSVT) model operates.

16. The majority of associations have carried out skills audits in the last few years, but only two-thirds have in place skills matrices.

17. The survey findings reflect the broader cross-sector challenge to deliver greater board diversity. As is the case in other sectors, women are under-represented on housing association boards, and boards generally comprise older people.

18. With regards to association chairs, many of the trends in wider board membership are more pronounced, with the average age of a chair higher than for other board members, and chairs more likely to be men.

19. **Boards and committees.** Some boards meet very frequently and a third of all associations have very long meetings (longer than 2.5 hours).

20. **The chair.** Respondents to the research showed recognition across the sector of the chair's critical role in shaping the governance culture and chairs themselves were insightful and thoughtful about how they approach their roles. Chairs would like more guidance in how to carry out their roles well.

21. **The executive and non-executive relationship**. There is evidence to suggest that the central nature of the chair and chief executive relationship to the governance and organisational culture of the organisation is well understood. How the partnership approach is extended beyond that pivotal axis to the wider board and executive team appears perhaps slightly less well developed in the sector.

22. There is no strong appetite in the sector to have executives on the board.

23. **Board recruitment and renewal.** There has been a general shift in the sector towards more rigorous recruitment methods, and the consensus is that this has helped to strengthen governance.

24. There are concerns about the talent pool and skills base from which voluntary non-executives can be drawn. Some boards have struggled to recruit to fill skills gaps.

25. There is evidence to suggest that a number of housing associations have struggled to deliver meaningful involvement of service users (residents) in governance, but there is a strong commitment to tenant involvement at board level, and a determination to provide tenant board members with the support and training they need to function well as board members.

26. There was a divergence of views about the merits of skills-based selection as opposed to election of tenants to boards. But there was agreement that really there should be no 'tenant board members', but simply board members who happened to be tenants, and greater flexibility in respect of how many residents are required on the board.

27. Similarly, there was good agreement about the need for tenant scrutiny and mechanisms for tenants to have clear and direct links to the work of boards.

28. Just under half of all associations do not have maximum terms for board members. Of the total number of board members, 12 per cent have been on the board for eleven years or more. More positively, maximum terms for chairs are in place in most organisations.

29. **Remuneration**. Interviewees and focus group attendees often raised unprompted the issue of

whether board member remuneration would help to improve the ability to recruit board members. There was a range of views about the desirability and impact of such a step, and much openness of view as to whether this should become an option.

30. **Board culture.** There is a general consensus across board members that the culture of governance has been improving over recent years and that boards are more able to effectively challenge senior staff.

31. Some of the evidence would appear to suggest that challenge is interpreted primarily as diligent probing of presented information, and rather less so as challenge of assumptions and options. There were some reservations from members of staff and from residents about the quality of challenge.

32. **Design of the board's work.** The research revealed many promising signs that boards have been trying to focus their board meetings on the things that matter through how they design and prioritise board agendas, and through being more vocal about

getting information that is designed for their needs.

33. **Beyond the board meeting.** It is difficult to judge from the available evidence how effectively boards engage in 'being strategic', in forward planning, scenario consideration and the 'bigger picture' (the generative aspects of governance).

34. **Training**. The majority of housing associations have board member training firmly embedded within their 'menu' or plan of governance activities across the year. There was no strong demand for more training, only for greater flexibility in how training is offered because of the difficulty of securing board member time to participate in it.

35. **Appraisals**. Appraisal is still becoming established across the sector – it is not a feature in every organisation. While evidence elsewhere focuses on the critical influence of the chair on the culture and performance of the board, the research found that only two-fifths of chairs are being appraised.

36. **Putting the citizen first.** There are different views on how

successfully associations demonstrate that they put the citizen first, with evidence from residents that a culture shift has yet to happen in some organisations. Residents were keen for their voice to be heard and responded to by the board, and for boards to combat insularity by ensuring that members engaged outside their organisations with other organisations and peers.

37. **Living public sector values.** Interviewees mostly interpreted public sector values narrowly as referring to openness and transparency (perhaps because these are highlighted in the Regulatory Framework's Delivery Outcomes). There was little evidence to suggest that boards had put much time into considering how best they might make openness and transparency meaningful in how they work. Other findings – for example, interviewee concerns about whether introducing the remuneration of board members would dilute the purity of commitment of board members – suggested that other values (selflessness, integrity) do inform how board members and senior staff view the board member role, even if these are not referenced as public sector values.

38. **Meeting future challenges.** There is strong consensus about the kind of future challenges faced by the sector, with executive and non-executive staff identifying greater risks to how organisations deliver on objectives, more complexities about the funding of social housing, and changing relationships with residents and others. Many anticipated needing new skills on boards to respond to these changes, and some spoke of the need for a culture shift. Board members indicated that they would welcome more discussion to advance their understanding of and approach to risk and finances. From the limited evidence, it was difficult to gauge how effectively boards look forward (for example, in modelling outcomes or scenarios).

39. While there was enthusiasm for a stronger degree of sharing and mutual learning across the sector, it was felt that the vehicles to do so were inadequate.

40. **Regulation.** The findings from this study reflect those of the interim evaluation of the Regulatory Framework, namely that boards would like the regulator to focus more on governance and financial viability as part of a risk-based approach to regulation.

## Conclusions and recommendations

41. This report has examined the current state of governance in housing associations registered in Wales and the issues identified by people who spoke to us. This section reflects on what has been learned and sets out some recommendations as to the way forward.

42. Now in 2013, the governance journey for housing associations may need a new boost to maintain its positive direction of travel. There are examples of good practice (indeed beacons of excellence), and boards that work well together with their senior teams in good partnership. There is also evidence of considerable progress on governance arrangements in the sector over the last few years.

43. Nevertheless, we found a readiness to discuss where things could be better, and there was probably more agreement on this area than on the best next steps. At the same time, there was a recognition that some board members may feel puzzled and even offended if they inferred criticism of their work and performance, and may be left wondering exactly what it is that they should be doing better. There was questioning of why this work was commissioned now, following so soon after the recently published report on the future of housing regulation. A very small minority seemed to wish to view the research team as some form of external assessors or inspectors rather than experienced collaborators. This may simply be through association with the new Regulatory Framework, which has impacted on the work of associations and their boards, but has not yet achieved wide acceptance and trust across all organisations.

44. Many board members and their senior teams have a sense that

things could be better, and would like to see clear maps for the next stages of the journey. Our own view is that the performance (rather than solely procedural) accountability of boards requires greater attention and support – fostering an effective governance culture is fundamental to boards leading and directing, and we have been unable to establish with confidence how well housing association boards understand this (certainly some do).

45. Of course, there is no crisis. No Welsh association for several years has needed a rescue, in contrast to some of their brethren in both Scotland and England. On one level, governance is working well, and the framework for good governance is well understood. But the business environment is about to get considerably tougher. At a time of growing tenant poverty, increased risks and reducing public funds, good governance must be at a premium. We see a need for direction of travel to be maintained and even accelerated, so that governance can become more properly and consistently strategic, more challenging and

better informed as a response to these changes. There needs to be a transition from procedural accountability to a stronger awareness of performance accountability. A lingering question is whether the pace of change in the operating environment will outstrip the pace of change in some governance arrangements. While some housing associations have procedures and approaches which hold up well in comparison with what 'good' may look like anywhere, if the sector is to keep pace with a fast changing environment further work is needed on diversity of skills and competencies, governance culture, how boards drive change and plan for future outcomes, and the sophistication of financial and risk analysis.

## Recommendations

We would recommend the following next steps for the sector:

**The role and functioning of the board**

(a)    Housing associations to establish clearly and promote

the role of the board and of individual board members through reviewing and updating (where necessary) core governance documents.

(b)     Housing associations to report publicly on which standards of governance they have chosen to observe and how they satisfy themselves that these are met.

Some recommendations (c-e) in respect of policy are:

(c)     Introduction of a Code of Governance, based on a 'comply or explain' approach (i.e. the housing association either meets with the standards identified in the Code or if for reasons of business need or diversity there is a sensible need for it not to do so, it publicly explains any areas of non-compliance). This might help to accelerate the completion of other recommendations put forward.

(d)     Encouragement for organisations to elect and select board members on the basis of competencies. (This policy consideration also informs the following recommendation.)

**Board size and composition**

(e)     Consideration of how the Large Scale Voluntary Transfer (LSVT) model can be moderated beyond the first few years of delivery. Without the freedom to evolve and modernise their governance model after their initial period of delivering transfer promises, LSVTs may continue to feel that they are compromising on the standards of governance they would like to achieve. From a governance perspective, there is an argument to say that the early years of LSVT organisations are heavily focused on pre-determined objectives and the board's role is mostly to monitor and provide assurance to other stakeholders (though it must lead cultural change too). Once promises are delivered, however, the mode of governance shifts by necessity into something more strategic, and the model ought to reflect that shift. There are other

ways (and some might argue that these are more effective) in which accountability can be reported and demonstrated to stakeholders, other than enshrining it in the board structure itself.

(f) Housing associations to ensure that there is a skills matrix in place for the board, and that role descriptions and person specifications are suitably tailored for future recruitment exercises.

(g) Housing associations to monitor the diversity of their boards and seek to address any imbalances, for example the under-representation of women on boards, or any other protected characteristics that require attention.

**The chair**

(h) Chairs to undergo an annual appraisal process, which should include feedback from board members and executive staff.

(i) While ensuring that appraisal is a supportive and developmental process, chairs to address any areas in relation to individual effectiveness both through the appraisal process and through ongoing feedback to board members.

(j) Sector-wide consideration of how existing engagement structures can be refreshed, so that chairs can engage and input ideas about the kinds of issues and points of learning they would like to be debating. There is a strong appetite among chairs to be inspired by other sources of learning, guided and developed as leaders. Chairs need to play their part by helping to shape these strategic networks.

**Board recruitment and renewal**

(k) High-level investment in a campaign to create a not-for-profit talent pool of non-executives across the voluntary sector, with a particular focus on diversification (professional experience, gender, age etc.). This might help housing association boards to address diversity and skills gaps.

(l) Associations to ensure that board membership is subject to fixed terms of office. To ensure a managed evolution rather than revolution, we

recognise that this might need to be a phased change that takes several years (but no more than three) to complete.

(m) Associations to have in place a succession plan that brings managed and cyclical board renewal.

## Remuneration

(n) Conduct of a consultation on the remuneration of board members (a policy recommendation). The board member role has become more complex and the sector ought to have the flexibility to use payment as a tool for swifter progress towards diversifying board composition and recruiting to skills gaps. Having the option to remunerate ought not to signal an automatic right to do so: size and complexity of organisation should be considered, and for many associations the key question may simply be whether or not it is necessary to remunerate the role of chair. We would expect that any association proposing to pay would need to prepare a business case setting out why.

## Board culture

(o) Opportunities are sought across housing associations to connect board members and disseminate good practice and learning. This is both a matter of policy (how this kind of inter-association collaboration is supported/facilitated) and a matter on which individual boards should take a lead. The focus groups held as part of the research have demonstrated that associations are very willing to engage in wider debates that stimulate their thinking on return to their own associations.

(p) Board and executive examination of the balance of the governance menu, and clarity on how the board is adding value. We believe the sector would benefit from much greater discussion as to how board members and senior staff work effectively together. This needs to align with rigorous design of the board's work, both in and outside meetings, including a commitment to board Away Days and time being assigned

to strategic reflection.

(q) Associations should ensure meaningful board involvement in the generation of the business plan and close monitoring of any strategic risks in relation to this.

(r) Boards to seek periodically external verification or triangulation of their views of their own performance, whether through more of an enabling dialogue with regulation managers or through 360 input from executive staff or through meaningful links with the senior resident body in the organisation or from external review by consultancies. A heightened degree of self-awareness and a willingness to receive feedback and learn from it are, in our experience, foundation blocks for high performing boards.

**Putting the citizen first**

(s) (Together with involved residents) board and executive exploration of how accountability is best delivered to residents and whether resident scrutiny offers a model that provides effective

challenge and engagement. While the sector is very protective of its values, at a time when public bodies are being shown to fail and threaten public confidence, how boards demonstrate their values and accountability to a range of stakeholders may benefit from further exploration. Principles of openness and transparency need to have meaning, and the welcome nascent development of resident scrutiny bodies may help to give this some teeth. Involvement of residents in governance need not always directly translate into board membership if residents feel they have a stronger voice and influence on decision-making from within their own strategic structure. This resonates with some of the findings of the interim evaluation of the Regulatory Framework, which identified associations needing to engage with service users at a more strategic level, and it may be that some of the actions arising from these two reports are shared priorities.

13

**Living public sector values**

(t)    Boards and executives to have a clear strategy in relation to how public sector values are practised through behaviours and processes, in particular a commitment to governance 'facing outwards', e.g. available information on every board (membership and how it works) on association websites, and each board member committing to attending at least one resident meeting or event per year.

**Meeting future challenges**

(u)    Of sector-wide consideration is the hosting/funding of a major conference on governance, social purpose and commercialism in social housing, with speakers from across the UK in attendance.

(v)    At a policy level, there needs to be clarity on which body provides thought leadership in governance – that is, ideas and guidance on the big questions and challenges that board should be engaged in and the options and initiatives about how they address them. The sector would benefit from building and owning its own inclusive and diverse vision of good governance, and working purposefully to implement it. In support of the agreed vision, a range of supporting initiatives around recruitment, networking and mutual support, training, and governance documentation are all needed. How the vision is delivered in practical terms would benefit from a coordinated approach and some investment. Associations have indicated that they would welcome support in terms of improving their appraisal mechanisms, their approach to skill-based recruitment and selection, and the support they provide to board members.

(w)    As part of this leadership, there ought to be guidance and/or workshops on how boards (and/or audit committees) sharpen their ownership of high level risks and determine their risk appetite.

(x)    A commitment to improving the financial literacy of the board (the Business Plan process above can assist in

this).

(y) Given some of the other future challenges identified – for example in relation to welfare reform – it will be important for boards to ensure that the organisational approach to issues such as resident profiling and insight is responding to how the operating environment is changing (e.g. understanding household income and affordability) rather than simply to the past environment that obtained (where profiling might generally have focused on factors such as protected characteristics). This may be an area that would benefit from cross-sector research.

## Aims of the study

46. The aim of the study, as set out in the Brief issued by the Welsh Government, was to:

(a) Assess the effectiveness of the current governance practices of housing associations and community mutuals against the standards of governance set out in Community Housing Cymru's Charter for Good Governance and against key features of the Regulatory Framework

(b) Consider relevant matters about governance and debates in other related sectors to identify lessons for the housing association sector

(c) To help future proof and support fit-for-purpose governance among housing associations, identifying training, development and capacity building needs to strengthen the approach to and practice of governance to meet future challenges, which include an increasingly difficult financial environment and the impact of welfare reform

(d) To stimulate a greater focus on good governance and continuous improvement as the basis for a well-run sector.

More information about the key questions is available in the main report.

## Methods

The research team undertook a multi-modal approach, comprising a literature review, desktop research and qualitative fieldwork. Full details

are available in the main report. The full literature review on good governance across different sectors is available in a separate stand-alone report.

For further information, please contact:
Sara James
Knowledge and Analytical Services
Welsh Government
Rhydycar
Merthyr Tydfil
CF48 1UZ
Tel: 0300 062 8562
Email: sara.james@wales.gsi.gov.uk