Halton Housing Trust

GOVERNANCE REVIEW 2013 BUSINESS CASE: JANUARY 2014

Introduction

Following a review of governance arrangements undertaken during 2013 the Trust is required to make changes to our governance structures.

These changes are necessary to ensure that we are fully compliant with the requirements of our regulator, the Homes and Communities Agency (HCA), in meeting the requirements of the National Housing Federation (NHF) Code of Governance. The consequences for associations that have not managed their governance issues to the satisfaction of the HCA are now very visible in downgrading of their regulatory ratings and direct intervention in the running of their businesses

This report summarises the proposed changes and then sets out more detail around each aspect in Appendix 1. Appendix 2 provides additional detail on Halton Housing Trust's approach to its skills matrix. Appendix 3 provides supporting evidence of recent changes to the HCAs regulatory judgements.

The Trust's Board have agreed the next stage is for the Chair and Chief Executive to meet with the Council and a cross section of customers to seek their views on the proposed changes. We are particularly interested in views and any alternative suggested governance structures that would still enable the Trust to meet the requirements of our regulatory body.

One specific area where we would welcome the views of the PPB is on the Council's future role in the Trust's Board. The Council currently has four representatives on the Board. To meet our regulatory requirements this has to reduce. The Trust is keen to maintain Council representation on the Board. Consequently one alternative the Trust is currently considering as part of the consultation process is whether we look to offer up to three Council positions on the Trust's Board. To satisfy our regulatory requirements the Trust would need to apply a skills based selection process.

Upon completion of the consultation phase the feedback will be fully considered by our Governance Review Group. They will then make a recommendation to the Trust's Board.

The consultation phase and any subsequent new governance arrangements need to be agreed by the end of March 2014. If we do not meet this timescale we face the prospect of being downgraded as this was the extended period we have previously negotiated with the HCA.

Proposal

1. Reduce Board size: reduce from 12 to a minimum of seven and maximum of nine members.

2. All Board Members to have a maximum term of office of nine years (three x three full year terms).This is to be increased in line with regulatory requirements to nine consecutive years All Board Members will be selected and appointed using the skills matrix. There will be no ringfenced positions.

3. We will continue to work in partnership with the LA and will consider any opportunities to strengthen this working relationship.

4. We want to continue to involve customers in our governance arrangements. It is important for us that the voice of the customer continues to influence the decisions that we make. We will review our customer involvement arrangements to make sure that they are as effective as they can be.

5. We will look at ways to further streamline our governance arrangements to enable the Board to focus on the key strategic issues facing the Trust.

Context

It is in the best interests of our customers, stakeholders and the Local Authority to have a strong, viable and vibrant RP based locally within Halton. We want to continue to work closely with the Council and other key stakeholders to support and develop our neighbourhoods and to deliver our vision of improving people's lives.

To enable us to achieve our objective in an ever changing and more threatening environment we need to ensure our governance arrangements are 'fit for purpose'. If we do not then, as recent events have shown with the failure of Cosmopolitan, Housing Group, we could be jeopardising the future of the Trust and therefore not be acting in the best interest of our customers and our neighbourhoods.

NHF Excellence in Governance Code

A full copy of the Code is available upon request. The relevant sections are:

Provision A4: Boards should have at least five members and no more than twelve, including co-optees.

Provision D1: To support board renewal, maximum terms of office must be two or three terms, with the overall maximum period of Board service for non-executive Board Members of no more than nine years.

Provision D2: Where the organisation's constitution provides for one or more Board Members to be nominated or directly elected the organisation must ensure that those coming forward bring skills and experience that are relevant to the needs of the Board.

Regulation

There have been several recent examples of where housing associations have had their regulatory judgement downgraded due to problems with their governance arrangements. Appendix 3 provides a summary of the most recent cases.

A downgraded regulatory judgement could impact on the amount of HCA grant that the Trust will receive. This would have a direct impact upon our ability to develop new affordable housing.

In the most severe cases the HCA have frozen any future grant allocations until the governance problems have been resolved as well as placing external appointees to the Board, in effect removing any local control.

Conclusion

The HCA has clearly demonstrated its intent to downgrade any association that does not comply or has not developed a plan to comply with the NHF Code of Governance.

There are several examples of recent cases where associations have been downgraded either because board members have served more than the recommended nine years of office and/or the board does not consist of members with the appropriate skills, knowledge and experience.

In addition there is a trend towards smaller boards. Whilst a board size of 12 members does still comply with the NHF Code of Governance, the evidence suggests this is now at the upper end of board sizes and a future change to this upper limit is likely in the near future.

Finally, as highlighted by the recent case involving North Hertfordshire Homes (refer to Appendix 3 for details) when an association has identified the need to change its governance arrangements, if it is not able, for whatever reason, to make the changes in a timely manner, then this will result in a downgraded judgement from the HCA.

As the Trust has identified the need to make changes to our governance arrangements, then it is important that these changes are progressed without delay. We have agreed with the HCA a special dispensation for the Trust to fully comply with the Code of Governance by our next AGM in September 2014.

Appendix 1: Our Proposal

Proposal 1: Reduce Board size from 12 to a minimum of seven and maximum of nine.

Rationale: Whilst the NHF Code of Governance says that boards should have at least five members and no more than 12, we are reducing the size of our Board for the following reasons.

1. Comparability with others. Of ten associations surveyed (see below) seven of them have a board that is smaller than the Trust's. This clearly indicates that there is a trend towards smaller boards.

i.	Peaks & Plains	8
ii.	Wulvern	11
iii.	Weaver Vale	9
iv.	Trafford	10
v.	Helena	10
vi.	Golden Gates	12
vii.	Shoreline	9
viii.	Eastlands	9
ix.	City West	12
x.	City South	12

2. Cost. The Trust would be able to reduce the direct cost and indirect cost of its governance arrangements with a smaller board. This would be an important saving as the Trust continues to seek out opportunities to reduce its costs.
3. Effectiveness. A larger number of board members represent a challenge in terms of using them effectively and/or having any kind of meaningful individual participation. According to the Corporate Library's study, the average board size is 9.2 members.

Committees. The Trust only has two Board Committees (1) Remuneration Committee and (2) Audit & Risk Committee. Therefore, there is no need to have a large number of Board members to sit on these Committees. The minimum number of Board members to sit on these Committees would be seven with three Board members on each committee plus the Chair. A minimum of six board members is needed so that no one is on more than one committee. Having members doing double duty may compromise the important wall between audit and remuneration, which helps avoid any conflicts of interest.

Proposal 2: All Board Members will have a maximum term of office. This is to be increased in line with best practice to nine consecutive years (three x three full year terms).

Rationale: The NHF Code of Governance makes it clear that to support board renewal, maximum terms of office must be two or three terms. The overall maximum period of Board service for non-executive Board Members cannot exceed nine years.

There have been several examples of where associations have been downgraded because of their failure to comply with this requirement. Appendix 3 refers to at least five recent cases.

Proposal 3: All Board Members will be selected and appointed using the skills matrix. There will be no ring-fenced positions.

Rationale: The NHF Code of Governance states that where the organisation's constitution provides for one or more Board Members to be nominated or directly elected the organisation must ensure that those coming forward bring skills and experience that are relevant to the needs of the Board.

Appendix 3 refers to at least five cases where associations have been downgraded due to their failure to comply with this requirement.

Proposal 4: We will continue to work in partnership with the LA and will consider any opportunities to strengthen this working relationship.

Rationale: The Trust is already represented on several groups within the Borough and we would continue to support our involvement. We have recently secured additional funding which will enable us to develop around 700 new homes.

Proposal 5: We will continue to involve customers in our governance arrangements. It is important for us that the voice of the customer continues to influence the decisions that we make. We will review our customer involvement arrangements to make sure that they are as effective as they can be.

Rationale: We have recently held two consultation sessions with customers to discuss our proposed changes. The overall feedback has been very positive. Customers clearly understand the need to change and to modernise our governance arrangements.

Proposal 6: We will look at ways to further streamline our governance arrangements to enable the Board to focus on the key strategic issues we are facing.

Rationale: The introduction of 'Our Direction' and the lead member system has enabled Board to focus on the key strategic issues. We will seek to continue the development of the Board through the development of an annual Governance Development Plan and a programme of annual Board Member appraisals.

Appendix 2: Background Information and skills matrix

Introduction

Halton Housing Trust (HHT) is a Registered Provider (RP) of social housing. The Trust was formed to receive the transfer of housing stock from Halton Borough Council in December 2005.

The Trust manages around 6,400 homes in the Cheshire towns of Widnes and Runcorn which are located in the Halton Local Authority area.

Regulation

The Regulatory Framework for Social Housing from April 2012 sets out the regulatory standards and expectations of RP's following changes to the Housing and Regeneration Act 2008, brought about by the Localism Act 2011

The regulatory framework describes at a high level how these are delivered through the Social Housing Regulator (SHR) taking a proactive role in the regulation of the economic standards (covering governance, financial viability, value for money (VFM) and rent.

The SHR's primary regulatory principle is co-regulation. This approach recognises that boards are responsible for their organisation's performance, compliance with regulatory standards and adherence to their own selected code of governance.

The recently published discussion document "Protecting Social Housing Assets in a More Diverse Sector" reaffirms the need for boards to have the appropriate skills to cope with a much more risky environment and to make sure that it has the relevant skills to deal with risk management and finance.

External Factors

The environment in which all RP's are operating is changing significantly. The single biggest threat to RP's continued viability is welfare reform.

- RP's already have to cope with the adverse impact of the implementation of the Under Occupation Deduction. For the Trust this means that around 900 customers will receive between £14 to £25 per week less than they did before the change. This change affects those customers of working age who are considered to be under occupying their home by one or more bedrooms.

- The Trust will have to deal with the changes as a result of the implementation of Universal Credit (UC). We currently receive around 65% of our income direct from Housing Benefit. However the implementation of UC will see this benefit paid to customers who will then have to pay their rent to the Trust. For many customers this will be the first time that they will have had to be responsible for paying their own rent.

RP’s are becoming more diverse and complex organisations. Many RP’s, the Trust included, have set up commercial subsidiaries that will generate profits to subsidise the social housing activity. This cross subsidisation is considered to be important when considering the threat posed by the Welfare Reforms and the reducing grant rates for the development of new homes.

Internal Factors

The Trust wants to continue to be a developing RP providing much needed high quality affordable rented housing across Halton. To enable us to continue to this with ever decreasing grant rates we will need to:

1. Generate profits from commercial activities
2. Increase the amount of money we borrow from banks and the capital markets
3. Reduce costs and drive efficiency
4. Review and change the ways in which we currently collect our income

It is in the best interests of our customers, stakeholders and the Local Authority to have a strong, viable and vibrant RP based locally within Halton. We want to continue to work closely with the Council and other key stakeholders to support and develop our neighbourhoods and to deliver our vision of improving people’s lives.

To enable us to achieve our objective in an ever changing and more threatening environment we need to ensure our governance arrangements are ‘fit for purpose’. If we do not then, as recent events have shown with the failure of Cosmopolitan Housing Group, we could be jeopardising the future of the Trust and not acting in the best interest of our customers and our neighbourhoods.

There have also been failures within other sectors, most notably within banks and financial services, partly due to ineffective governance arrangements and skills.

Governance Review 2013

In January 2013 in response to the many issues in the sector and a changing regulatory approach the Trust’s Board commissioned a review of its governance arrangements. The objectives of the review were:

- To put in place governance arrangements that compare favourably with best practice models
- To have governance arrangements that enable the key issues to be properly debated

- To have arrangements that enable effective and efficient decision making
- To clarity the roles and responsibilities within whatever governance arrangements are in place
- To put in place arrangements that are ‘future proof’ as far as is possible
- To have arrangements in which every participant, whatever their role, is able to ‘add value’

One of the first tasks completed was to review the skills needed on the Board to meet the challenges that lay ahead. It was reinforced at this time that the skills should reflect the type of business - locally focused with an overarching aim of improving people’s lives.

Therefore the business needed the right mix of generic business skills, social business skills and local expertise. 10 skills were identified as most important for the HHT Board:

1. Knowledge of the needs, aspirations and concerns of customers and communities served by the Trust
2. Commercial business, business planning, financial and management skills
3. Funding, planning and development for housing and regeneration
4. Care, support and the needs of vulnerable people
5. Working with local authorities, other government and statutory bodies and other local and national partners.
6. Experience of working as non-executive Director, executive Director or at senior level of a private company, plc or substantial public or third sector organisation
7. Communications, marketing and public affairs
8. Public policy and politics relating to the wider social housing sector
9. Risk management and mitigation
10. Governance and working as one of a Board team

We recognise that no one Board member can be expected to possess all of these skills. However it is expected that overall the Board will contain people who will provide it with these skills.

These skills will be used for all future selection and appointments to the Board. People with specific skills may be sought if the Board feels that it ever has a gap in its overall skills matrix.

The existing process for appointing people to our Board does not enable us to consistently satisfy our overall skills requirements and by default the expectations of our regulatory body.

To meet the regulatory requirements we need to demonstrate that we select and appoint each of our Board members using the skills matrix. This does not exclude customers or Council members on our Board. People from these groups can clearly demonstrate how they contribute positively to our skills matrix.

Appendix 3: Recent Regulatory Judgements

16 providers have been awarded a G2 rating and 8 have received a G3 rating.

G2 Rating

Bedfordshire Pilgrims Housing Association (V2)

- Code of conduct stated that details of Board remuneration, including the names of those in receipt of payment, should be published. This was not followed.
- The organisation's code of governance states that the remuneration received by Board members must be appropriate given the organisation's size, complexity and resources. Non-executive director's pay was raised to a level above sector norms without giving adequate consideration to BPHA's size and complexity.
- An adequate explanation of non-compliance was not provided. BPHA intends to publish this information for year end 2012/13.

Bournemouth Churches Housing Association (V2)

- Some Board members had exceeded their terms of office and RSL did not have an succession plan in place.
- Regulator stated that there were concerns that "this may lead to a lack of challenge to long standing practices which may be a risk to effective leadership and control. BCHA does not have an explicit plan for Board succession".

Broadacre Housing Association (V1)

- One Board member has exceeded the nine years allowed by their code of governance. BHA has agreed to comply with the code from 2012 but the regulator remains concerned about compliance because there is no clear succession planning.
- RSL increased the range of its activities and this led to an increase in associated risks. Regulator expressed concern that the Board has not been provided with sufficient skills training following an increase in Board member responsibilities.

Cambridge Housing Society Limited (v2)

- Commissioned an independent review which identified weaknesses in governance including:
- Lack of sufficient skills in the Board room
- Need to strengthen treasury management, risk management, business planning, internal audit and the society's internal risk framework.

- A recruitment and succession planning programme was put into place to strengthen Board skills and expertise. A new chair was appointed in March 2013 and a new Board member with treasury experience has been appointed

Great Places Housing Group Limited (V1)

- Demonstrated weak governance when agreeing executive contracts and severance payments to outgoing executives.
- Independent investigation commissioned and the regulator believes that the findings identify the potential for further weaknesses the GPHG's management.
- Independent review found that when negotiating contracts and severance pay the Board did not make adequate assessment of the risks associated with the decisions it was making. The Board and remuneration committee did not have a clear role in scrutinising remuneration payments and as a result decisions were not effectively scrutinised. Furthermore RSL did not recognise circumstances when it should have sought independent advice and did not act on advice when it was given.

Hastoe Housing Association (V2)

- Regulator found that appraisals of the Board by the governance team were not sufficient to ensure that the Board's skills remain at appropriate to effectively manage the risks of the organisation.
- The Board does not comply with three provisions in its code of governance:
- The size of the Board exceeds the maximum. The regulator is not assured that in retaining a Board of this size Hastoe has considered whether members could be utilised to support a smaller strategic board.
- The average length of service for the Board is 12 years.
- The Board is appraised annually and individual members are appraised every three years however Hastoe has not adequately demonstrated that it has assessed the skills of to the Board to ensure that they remain at appropriate to effectively manage the risks of the organisation.

Housing 21 (v2)

- Identified weaknesses in risk management, evident in subsidiary and in internal controls, were material factors in the regulator's governance assessment.
- H21 established a subsidiary company in 2006 to manage a project for refurbishment, new building and management of new properties. It was intended that the subsidiary company would absorb the risks associated with the project and not leave the parent company or the existing social housing exposed.

- It was later found that works under a separate but related company were defective which left the parent company exposed and resulted in significant financial loss.
- Independent review found that the terms of the contract were onerous to H21, the arrangements to protect the existing housing stock were not adequate, the information for properties within the contract was not sufficiently detailed, the management and risks were fragmented and leadership was not effective.
- Following this H21 has taken steps to improve its management and the risks associated with the project. To assure the regulatory H21 has also agreed to provide a comprehensive plan detailing key risks and mitigations.
- As well as the above the regulator also found that H21 did not have a sufficiently robust internal framework during a period of significant business change. Eight internal audit reports provided no assurance, with one advising no assurance.
- Weaknesses in risk management have also been identified.

Luminus Group Limited (V1)

- The regulator does not have confidence that the quality of the treasury management or the Board's understanding and management of counterparty risk is sufficient. Luminus need to provide assurance that they have reviewed and expanded their treasury management policy.
- The risk management strategy does not provide adequate detail on the organisation's risk appetite and there is not sufficient detail of recent risks.
- Following regulatory concern last year Luminus has separated its audit, finance and risk committees from the Board. An internal audit function has also been brought in house. These new arrangements will be monitored.
- An independent review has identified that Luminus needs to ensure that the skills and expertise of the Board continues to meet the needs of the organisation as it matures.
- RSL to continue to develop an appropriate succession strategy and to develop and maintain oversight of an appropriate strategy to make best use of available funding.

One Housing Group (V1)

- involved in a wide range of activities and has ambitious growth plans. SHR needs further assurance that the level of oversight by the Board is on a standard that allows effective scrutiny of key activities. The Board needs to strengthen its capacity to carry out a scrutiny role and to hold the chief executive to account.

- Group reporting to the board has not been frequent enough or detailed to enough to allow the board to understand current performance and any issues arising from group activities.

- A new succession plan has been put into place and is being utilised.

Orwell Housing Association (V1)

- Longest serving Board member in sector.

- Several members exceeded their term of office. SHR did not accept the organisation's explanation for non-compliance which emphasised the importance of retaining experience.

- A new nine year maximum term of office is being introduced but full compliance will not be achieved until 2018 by which time one board member will have served for 40 years.

- Does not have sufficient oversight and assurance in all areas of the business and as a result key risks are not adequately mitigated or managed.

Midland Heart Limited (V1)

- Did not to have adequate arrangements to support its compliance and reporting regulations. It is a regulatory requirement that providers explain any aspects of non-compliance. Midland Heart Limited has failed to report areas of compliance and non-compliance.

- Lack of sufficient evidence that the board has fully considered and challenged itself on its compliance and reporting obligations.

New Charter Housing Trust (v1)

- Did not provided sufficient evidence that it is complying with its chosen code of governance.

- Board Members exceeded their terms of office. HCA concerned that the independence of the Board may be compromised by a lack of challenge to long standing practices which may lead to risks to effective challenge and leadership.

- No issues with achievements and outcomes but the organisation needs to demonstrate more transparently how its governance arrangements are meeting its code of governance and that is public reporting enabled stakeholders to be properly informed.

North Hertfordshire Homes Limited (V1)

- Two internal governance reviews in 2008 and 2010 recommended changes in the composition of NHH's board membership and a reduction in its size. The reviews identified a need to ensure a more appropriate balance of skills on the board to improve its effectiveness and better enable it to oversee the delivery of NHH's strategic objectives. More recently, self-assessment by board members in 2012 identified some gaps in treasury management expertise, underlining the need to strengthen the knowledge and skills mix on the board.

- Due to its corporate structure and shareholding arrangements, NHH has been unable to address the reviews' recommendations by pursuing its preferred option of rebalancing the board by increasing the number of independent members . As a consequence, NHH has yet to develop effective strategies to take forward the reviews recommendations and strengthen its board. NHH will require a viable alternative plan of action to realise the required outcomes from the internal reviews, to ensure governance arrangements deliver strategic objectives and improve the board's oversight

Viridian Housing's (V2)

- Failures in recording and monitoring of declarations of interest which led to the letting of maintenance contract which may not have represented value for money.
- Procedures have since been tightened and the regulatory is happy with current progress.

Saffron Housing Trust (V1)

- Management did not adequately report risks of subsidiary companies and as a result they were not mitigated.
- The regulator criticised Saffron's risk management in its oversight of its unregistered construction company Crocus. Risks regarding Crocus were not fully reported to the parent board.
- Inadequate management of governance processes including
- Lack of written documentation relating to contract management
- Failure to take meeting minutes and inappropriate delegation of key expenditure by the board to the executive.
- These were compounded by management failures to comply with the requirements of the audit committee.

G3 Rating

Cottsway Housing Association Limited (V3)

- Reported serious cash flow problems to the regulator which had started in October 2012. There had been a failure in internal processes and controls which resulted in a failure to change properties to support required loan drawdowns.
- RSL had put in place actions to deal with this but did not notify the regulator until a later date- this represented a failure to communicate with the regulator in a timely manner to report issues relating to non-compliance of financial standards.
- The regulator is satisfied with the action taken so far and will continue to monitor progress.

East Thames Group Limited (V2)

- Financial plan is undeliverable and lacks strategic planning. The finance team has failed to report key financial indicators such as cash flow and has failed to oversee the business.
- Finance department has been restructured since weaknesses were identified in the procedures, systems and planning and co-ordination of the team.
- East Thames was found to be non-compliant with rent levels in over 1000 homes.
- The regulator lacked confidence in the accuracy of their financial position and application of rent guidelines.

Gallions Housing Association Limited (V1)

- Failed to act in a transparent and accountable way demonstrated by the decisions taken relating to the remuneration and compensation for redundancy of an outgoing executive.
- Board referred to regulatory requirements that had not been in place for some time. Failed to take into account the current regulatory framework and in particular the requirement that registered provider governance arrangements should ensure they safeguard the reputation of the sector.
- Board failed to take timely legal advice and to make best use of the advice it received.
- When notified of potential issues by an adviser, the Board failed to inform the regulator as a result does not meet the standards for transparency.
- Board did consider the long term saving that came from the departure of an executive but the savings do not demonstrate sufficient value for money.
- Regulator concluded that the board did not exercise adequate controls to fully assess the risks associated with the level of payments it agreed. An independent review has been commission to a brief agreed by the regulator. The regulator will monitor the outcomes/progress.

- Gallions also breached Home Standard by failing to comply with the Gas Safety Regulations 1999. As well as being considered serious detriment to tenants this raises governance concerns as the standards for Board accountability and compliance have been breached. The association has now rectified this issue and the regulator will continue to monitor arrangements.

Plus Dane Housing Group Limited (V2)

- Needed to strengthen its risk management as the group is aware of capacity constraints but despite this has still pursued growth opportunities without fully considering their capacity or group exposure. This included the scale and impact of potential losses, the impact of welfare reform or the effect of reducing funding to the subsidiary company.
- The group's growth aspirations require additional funding which will bring it close to the funder's gearing covenants. The group has started to take action to resolve these issues but they have not yet been implemented. The regulator feels that they need to commission an independent review.
- Financial strategy needs to be reviewed
- Slow to strengthen governance team.

Metropolitan Housing Association (V2)

- Financial planning was found to be weak, for example efficient targets were weak and not supported by evidence or delivery plans. As a result the 2011/12 budget was missed.
- Regulator also found that in some cases too much responsibility was delegated to the finance committee but in other cases delegation to the finance committee was lacking.
- Criticised for not providing the Board with sufficient control or support which has resulted in loss of stakeholder confidence, unclear governance arrangements and inappropriate agreement procedure.
- Executives did not have a clear role on the board and failed to take appropriate action when reviewing compliance against governance.
- Failed to report non-compliance with their governance code.
- Following an independent review the business plan was revised and a new governance plan was implemented. The Chief Executive was replaced and Board membership is being reviewed. The regulator is satisfied with progress and will continue to monitor the association

Pierhead Housing Association (V1)

- Disputes between senior management and Board meant that leadership attention had not been focussed on directing and controlling the business.
- EMT capacity had been reduced by long term absences.
- As a result of problems a number of Board members resigned and regulator is not assured that the board can fulfil its role.
- Despite problems no review of Governance since 2010. Not compliant with some areas of code but not reported this and not checked compliance against code. Not assured that organisation is compliant with other areas of code.
- Agreed to conduct independent review. Re-establish purpose, mission and objectives of organisation. EMT interim directors have been hired and two new board members appointed.

Family Housing Association (V2)

- Finance team has failed to report key financial indicators such as cash flow and has failed to oversee the business
- Failure to provide Board with accurate or adequate information to enable it to oversee or control the business. Some financial information provided to the board was found to be incorrect
- Board criticised for being ineffective in challenging the executive team about the amount and quality of the information that it has been providing.

Swan Housing Association (V1)

- Regulator required organisation to commission four independent reviews.
- Swan claimed £50 million out of a £124 million grant before the relevant conditions for the grant had been met. Documents were falsified in order to claim the grant. The motive for this was to preserve and enhance the organisation's reputation as an effective developer. This demonstrated widespread failures to control within the development department. Following this incident in 2011 the Board did not undertake any investigation to find out if these problems were more widespread.
- The regulator is not assured that the Board is aware of, or responding to the external and internal risks to delivery of the business plan or that the board gives sufficient priority to performance management. In particular the development department is not subject to adequate monitoring and nearly all the risks cited in the business plan are development related.
- The regulator is not confident that the board has been receiving accurate reports about all areas of the business, in particular, growth and development.

- In 2005 the development department was not subject to an internal audit. The board accepted management explanations that this was not necessary and as a result this department was allowed to work independently. The board allowed a culture to develop which held that the development department would be allowed to meet its targets at all costs.