



Committee Clerk
Public Accounts Committee
National Assembly for Wales
Cardiff Bay
CF99 1NA

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Y Pwyllgor Cyfrifon Cyhoeddus / Public Accounts Committee Ymchwiliad i drefn reoleiddio Cymdeithasau Tai / Inquiry into Regulatory oversight of Housing Associations

Response from Merthyr Valleys Homes

Background

Merthyr Valleys Homes are the only Tenant and Employee mutual in Wales and we manage 4169 properties in the county borough of Merthyr Tydfil. The governance arrangements after transfer were similar to most large scale voluntary transfers with a Board of Non-Executive Directors made up of 4 directly elected tenants, 4 appointed councillors, and 4 board appointed Non-Executive Directors or “independents.”

By 2015 MVH had completed the delivery of Welsh Housing Quality Standards and met all the important promises made to tenants at the transfer in 2009. We had invested heavily in the external appearance of our properties and better housing management. In our self-assessment report available at; http://www.mvhomes.org.uk/wp-content/uploads/2016/07/MVH-2016-Self-Assessment_final_web_8f5885.pdf we identified how we had made some significant differences and worked with MTCBC on the renaissance of Merthyr Tydfil.

If any Assembly Members have visited the Caedraw area over the last 3 years they will have witnessed the transformation themselves. In the large neighbourhoods where we manage homes house prices have increased by more than double that of the average across the whole borough. This is an indication that investment and

confidence are returning to our neighbours where previously market failure was endemic.

Improvements to community confidence are difficult to track but one area we have monitored real change is crime and the effect of crime. This reduction and confidence is evidenced by our use of steel shutters to protect empty property from thieves. In 2009 we used to put steel shutters on every empty property in more than 52 streets and as many as 100 properties could be boarded up at any time. We now have only 23 empty properties in total and only 2 houses are currently boarded up.

In 2015/16 the Board, the Tenants and Members of the community started a journey to find a new governance model. We established a Commission who met for over a year and began to design a new structure. MVH felt that the LSVT model with the Council holding a golden share had many challenges and improvements could be made. We felt that all housing association governance models have conflicts within their constitutions. Housing associations are complex organisations and require a skilled and competent Board to manage the public money. But in an LSVT with 8 out of the 12 Board members being appointed or directly elected it was difficult to ensure that the Board always had the right skills and expertise to carry out their role. It was also impossible to ensure that the Board reflected the diversity of the community without the use of complex electoral colleges and too frequently the independent Board Members were used to provide both the skills and to ensure that the Board accurately reflected the community.

The turnover of Board members could also be volatile particularly in an election year and at one point during the 2012 local government elections we could have had 7 new board members in one year. Fortunately the new administration at MTCBC in 2012 recognised this risk and reappointed 3 councillors who had previously sat on the Board. Tenant and Councillor Board members also openly struggled with being Non-Executive Directors particularly when this conflicted with their elected responsibilities as a councillor or an elected tenant. In reality they had to put their legal responsibilities to the Company before their duties to their constituents.

Finally there was no role for the employees of MVH in the in the LSVT governance model. Many employees had worked for this organisation their whole career, one

electrician retired during the Commission having completed an estimate of 50,000 repairs jobs. The Commission felt that employees who have given so much to the organisation and the community deserved a say in the long term future equal to that of tenants. They wanted to create a real partnership.

In looking for the right model of governance the lessons from Lord Myner's Report on the Co-Operative Retail Sector and the conflict here between elected Boards and having effective governance were considered by MVH. The final model redesigned by the Commission into the governance of MVH was that of a mutual. All tenants and employees over 16 can be Members. These Members then elect delegates onto a Democratic Body along with 2 representatives from the local authority. This Democratic Body has very specific responsibilities including:-

- Appointing and deselecting the Board of 8 non-executives (these non-executive directors are appointing for their skills, values and expertise and are not appointed from the Democratic Body).
- Appointing with the Board the Chief Executive.
- Setting the vision and values.
- Monitoring the annual performance plan.
- Approving the accounts and appointing the auditors.
- Providing challenge and scrutiny to the Board they have appointed.

Specific questions raised by the Public Accounts Committee in the letter from the Chair Nick Ramsey ASM.

1. The effectiveness of the current Regulatory Framework for Housing Associations Registered in Wales;

1.1 We fully support the co-regulation approach and believe that the new approach will help to focus regulation on the big issues and risks. Critically for us it puts the Board at the heart of the process as they need to assure themselves the organisation is in compliance with the guidance. We believe this is a more robust approach than the previous one which felt more like a service inspection and could occasionally miss the big governance issues and risks.

1.2 The Committee need to review the potential risk of a revision to a funding covenant when a regulation intervention does occur. A regulatory intervention is usually grounds for a funder to revise the cost of a loan; in essence the funders reprice their loan to reflect the new risk. The cost of this revision is a commercial decision for the funders and information on that revised loan cost is not made public. A marginal increase in the cost of a loan can have a very big consequence over the life of a 30 year business plan and rumours from England are that covenant breaches have cost some organisations in excess of £10m.

2. The effectiveness and quality of governance arrangements

2.1 MVH have recently changed the governance arrangements to balance the issues of having a strong and effective governance structure with an accountable and democratic structure that has been covered in detail in the background comments above.

3 Whether the current regulatory regime is effective in managing and mitigating sector wide risks.

3.1 Generally we believe the regulatory regime in housing is as effective as the resources expended will allow. The area that we would identify as a concern is the capacity of the regulation service to deal with multiple events. Bluntly the regulation team do a difficult job but there are not enough of them to provide the regulation required and the pay grades are insufficient to manage the risks being regulated. A suggested exercise for the Panel might to compare the cost of the housing regulation system to other regulation systems in electricity, rail and telecoms.

3.2 Good practice and information on risk is openly shared within Wales. A key part of the co- regulation approach is the rapid exchange of information and risks within Wales. MVH have undertaken multiple risk and stress testing in recent years and we believe this is useful training and helps us prepare for risks, but risks do and will always occur. Obvious risks of well flagged public policy changes from welfare reform to changes to Community First can be planned for and mitigated against. Rapid changes of Government or market policy are much more difficult to mitigate against. Few English housing associations had the 1%

rent cut in their risk register and this had a big impact when it was swiftly announced in budget without pre consultation.

4 The effectiveness of the co-regulatory approach in practice;

4.1 The current framework has been designed with the housing sector and we believe is a real improvement on the old guidance.

5 The remuneration of senior executives of housing associations.

5.1 It is not the place of MVH to comment on the remuneration processes in other organisations but our approach to date has been different. MVH has a trade union recognition agreement and the annual pay of all staff including senior executives is negotiated through this recognition agreement. The executive team have a pre-approved business plan from the Board with pay parameters within it. Negotiations between the trades unions officials and executive team then take place over the exact nature of the offer and the final pay offer is then voted for by members. To date the offer and award have not required further ratification by the Board. Within the new governance structure pay awards are reserved to the Board rather than the employee and member Democratic Body.

5.2 The table below outlines the average pay for males and females at Merthyr Valleys Homes. This is based on actual pay as opposed to full time equivalent.

Average Male Gross Salary:	£26,076.78
Average Female Gross Salary:	£25,408.23
Difference:	£668.55
Gender Pay Gap	2.6%

Merthyr Valleys Homes currently have approximately 25 part time employees, the vast majority of which are female. The number of part-time employees is based on receipt of flexible working requests in the main and is not business

driven. There are a number of female employees who complete the same role as male counterparts, whilst their average salary would be less their hourly rate would be the same. The below table identifies the gender pay gap based on hourly rates, this reduces the gap to 2%.

Average Gross Hourly Pay Male:	£12.08
Average Gross Hourly Pay Female:	£11.84
Difference:	0.24p
Gender Gross Hourly Pay Gap:	2%

The Office of National Statistics has identified an average gender pay gap of 15.7% within Wales.

5.3 Chief Executive Pay Increase compared to average male and female salaries over last five years.

	Average Male Pay Increase	Average Female Pay Increase	Chief Exec Pay Increase
2012/2013	1%	1%	1%
2013/2014	2%	2%	2%
2014/2015	2%	2%	2%
2015/2016	1%	1%	1%
2016/2017	1%	2%	0.40%

6 Remuneration of Board members

6.1 The issue MVH would like the Committee to consider is the payment of Non-Executive Directors on the Board. As a tenant and employee owned mutual we believe that the decision on whether to pay Non-Executive Board Members should be made by the organisation and not by the Welsh Government. As a mutual we recognise the important role of attracting the very best people to manage the business on our behalf and we also recognise that the income to pay any remuneration comes from the tenants rent money.

At present Board members give up a significant amount of time voluntarily and this makes becoming a Board member a difficult decision for people of

working age. The requirements on the voluntary Chair over the last year have been onerous and have included taken unpaid or using holiday leave to attend:-

- Board away days
- Business planning stress testing
- Governance conference
- Ministerial visit
- Regulation feedback meeting

Even the attendance at the Public Accounts Committee has required the use of unpaid leave.

We look forward to meeting at the forthcoming session of the committee and if you require any further information or clarification please do not hesitate to contact us.

Yours sincerely



Michael Owen

Chief Executive

Tel: 01685 727757

Email: michael.owen@mvhomes.org.uk

t: 0800 085 7843
01685 727772
f: 01685 722480
e: info@mvhomes.org.uk
www.mvhomes.org.uk



Merthyr Valleys Homes Ltd. Martin Evans House, Riverside Court, Avenue de Clichy, Merthyr Tydfil CF47 8LD