Clive Betts MP  
Chair, Communities and Local Government Committee  
House of Commons  
London  
SW1P 3JA

By email: clgcom@parliament.uk

25th September 2014

Dear Mr Betts

Increase in Staff Capacity and Capability

Thank you for your letter of 9 September asking for some further information on the changes we are making to our structure to strengthen our capacity. I think it would be helpful to provide the context within which these changes are being made and how they fit with the long term strategy for the regulator.

The Regulation Committee has set protecting social housing assets as our key strategic objective; this is a distillation of the regulator’s statutory objectives. By protecting social housing assets we will be able to: protect tenants, by ensuring they still have a home to live in; protect taxpayers’ money; and maintain lender confidence in the sector, so that registered providers are able to continue delivering new housing.

The job of protecting social housing assets is becoming increasingly difficult due to the changing market context in which registered providers are operating. These changes include: the end of long term funding at low rates; lower grant rates; and welfare changes which mean that rent is no longer underwritten in full by housing benefit.

These changes have meant that providers are looking for new ways to raise finance (e.g. bond markets, sale and leaseback) as well as diversifying into other business activities (e.g. market rent or sale) in an effort to cross subsidise provision of new affordable homes. This presents both opportunity, for additional funding, and risk, that providers will be exposed to and will need to manage the diverse funding and business streams. It is in the context of these changes and challenges that the long term strategy for regulation has been developed since responsibility for regulation moved into the HCA.

Alongside making changes to the Regulatory Framework and focussing our attention more on complex, riskier providers we identified a number of areas in which we needed to
strengthen our capacity to respond to these changes. The first steps were taken in our restructure last year where we strengthened our skills and capacity to deal with complex and increasingly commercial not-for-profit and for-profit providers, and added to the complement of senior regulators with the financial and other skills to understand and regulate the complex businesses on which we will increasingly focus. At the same time we re-organised our teams so that our assessments of governance and financial viability are carried out side by side to create a seamless regulatory strategy and make the best use of our resources. We also enhanced our capacity to deal with complex cases that have progressed beyond early warning signs of underperformance and have the potential to require the use of our statutory powers.

The restructure last year put us in a much stronger position to regulate the changing sector and the proposals to strengthen our capacity further build on those changes. We have now completed the consultation with our staff and have finalised the new structure which will see a net increase in senior staff of 10 FTE. We currently have 37 staff who we would classify as senior and this will now be increasing to 47. We are shortly to advertise to fill these posts.

The additional senior roles are made up of:

- **Assistant Director Investigation & Enforcement** – this post will have governance expertise, most likely in the form of, legal, company secretary, regulatory or insolvency / corporate restructuring expertise
- **Assistant Director Assurance** – this post will most likely be filled by someone with a numerate discipline such as accountancy, economics or statistics
- **Senior Financial Analysts (five posts)** – these posts will be filled by qualified accountants
- **Senior Advisor Investigation & Enforcement (Finance)** – this post will most likely be filled by someone with a numerate discipline such as accountancy, economics or statistics
- **Head of Private Finance** – this post will require someone with accountancy expertise who will also have treasury management expertise
- **Head of Governance** – this post will have governance expertise, most likely in the form of legal or company secretary expertise

As we have not yet recruited there is of course a chance that the exact skills and expertise of the successful candidates will vary slightly from those set out above.

We anticipate that making these changes will materially increase the capacity of the regulator once we have been able to recruit to them and to fill our other posts created in our restructure as this will increase our capacity in a targeted way to strengthen our:

- financial regulation capacity by doubling the number of senior financial staff we have:
- value for money regulation;
- work on risk and governance;
- treasury management expertise;
• and our ability to handle potential insolvency situation and other issues of potential non-compliance with our standards including the consumer regulation standards

In addition to fitting with our long term strategy to focus on the more risky, complex providers to better protect social housing assets these changes are also consistent with the themes in the Cosmopolitan lessons learned exercise. In particular they address the recommendations on: better understanding risk management; being able to successfully manage a potential failure; and having the right skills and resources.

As requested, a further update will be provided by 9 January 2015.

Yours sincerely

Julian Ashby
Chair of the HCA Regulation Committee