

Watmos Community Homes

Note to shareholders for Special General Meeting – detailed

Introduction

At its meeting on 22 September 2022, the Board approved the wording of proposed amendments to the organisation's Rules. In order that the amended Rules can be registered by the Financial Conduct Authority (FCA) they must be adopted by the organisation's shareholders at a Special General Meeting (SGM). This note sets out the potential implications if the amended Rules are not adopted at the SGM. In putting it together we have taken counsel from an external advisor who previously worked at a senior level for the Regulator of Social Housing (RSH).

Regulatory position

In March 2021, the RSH published a Regulatory Judgement (RJ) for Watmos which graded the organisation's governance as compliant at:

"G2: The provider meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance".

G2 is not a sustainable position in the long-term. Watmos needs to work to improve its governance grading to:

"G1: The provider meets our governance requirements".

If Watmos does not return to a G1 grading over the next few months, it is likely that the RSH will consider re-grading its governance rating to a non-compliant grade:

"G3: The provider does not meet our governance requirements. There are issues of serious regulatory concern and in agreement with us the provider is working to improve its position".

The consequences of a non-compliant, G3 grading for governance are potentially very serious, including the possibility that the RSH would require Watmos and its subsidiary TMOs to be taken over by a larger registered provider.

Conduct of Board meetings

One of the key elements of good governance is that the Board is able to conduct its business in an effective manner.

In relation to the quorum of Board meetings, the organisation's current Rules say that:

"the quorum for the transaction of the business of the board at the time when the meeting proceeds to business shall be five including no fewer than three nominated board members and one independent board member. In order for a board meeting to be quorate, the nominated board members shall not be in the minority".

As a result of those requirements, at some Board meetings, so that nominated Board members would not be in a minority, one or more independent Board members have had to act as observers, rather than fully participating and acting in their capacity as Board members. That situation represents poor governance and it is something that the RSH would look upon unfavourably and which could prevent Watmos returning to a G1 grading for governance.

Proposed wording in revised Rules

In the revised Rules it is proposed that the wording in relation to the quorum of Board meetings reads:

“the quorum for the transaction of the business of the Board at the time when the meeting proceeds to business shall be four members”.

The revised wording would mean that all Board members would be treated equally and would be able to fully participate and act in their capacity as Board members in Board meetings.

Potential implications of the revised Rules not being adopted at the SGM

As set out above, the failure of the organisation to conduct its Board meetings in an effective manner could hinder the return to a G1 governance grade and could contribute to the organisation’s governance being graded as G3.

If the SGM does not adopt the revised Rules, that would be very serious from a regulatory perspective and could lead to a G3 grading or even a grading of:

“G4: The provider does not meet our governance requirements. There are issues of serious regulatory concern, and the provider is subject to regulatory intervention or enforcement action”.

If the organisation was graded as G4, it would at least be very likely that the RSH would require Watmos and its subsidiary TMOs to be taken over by a larger registered provider. In order to avoid that situation, should the revised Rules not be adopted at the SGM, Watmos’s Group Board would be forced to consider whether those TMOs voting against the proposed changes to the Rules were failing to act in the best interests of Watmos, and consequently whether Watmos should exercise its step in rights at those TMOs to ensure that the revised Rules might be adopted at a further SGM.