

Tenant Services Authority Regulatory Judgement

**Solon South West Housing Association
L0125**

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The Tenant Services Authority (TSA) has prepared this report to set out its overall assessment of the association's compliance with the regulatory framework for registered social landlords (RSLs). These requirements are set out in the Regulatory Code and Guidance established by the Housing Corporation which will remain in place until new standards are determined by TSA.

The report sets out the TSA's view as to whether the organisation is:

- **VIABLE**
- **PROPERLY GOVERNED**
- **PROPERLY MANAGED**

In preparing this report the TSA has placed reliance on the completeness and accuracy of information supplied to us, and prior to 1 December 2008, to the Housing Corporation, by the association and other parties.

This information was used to inform our risk-based approach to regulation and to identify areas of possible non-compliance with the Regulatory Code for further investigation. Our risk-based approach also results in low levels of regulatory engagement with some associations, for whom the information provided in this assessment could necessarily be in less detail.

The TSA is the Regulator of Social Housing. This report has been compiled to assist the TSA in its statutory duty of regulation of Registered Social Landlords. Our report makes clear to the association's board the conclusions we have reached regarding the association's compliance with the Regulatory Code.

The TSA accepts no liability whatsoever for the accuracy or completeness of any information or assessment contained herein. No third party may rely on its contents, but must make its own investigations or enquiries.

Description of the group

Solon South West Housing Association (Solon) was established in 1974. The association owns approximately 1,000 homes for rent, of which 85% is general needs, and the remainder is supported housing. The majority of Solon's stock is in central Bristol, and it also has a small proportion of stock in surrounding local authority areas, including Mendip and South Gloucestershire. Approximately 80% of Solon's stock is over 100 years old which generates significant maintenance requirements.

Solon's mission is 'to provide good quality, affordable homes and customer focused housing services in a way that satisfies the housing and social needs of each of our customers.' This is supported by a number of strategic objectives, which outline the association's focus on delivering quality services, improving the quality of its stock, and customer service.

Solon operates within areas of widely varying black and minority ethnic (BME) populations, ranging from around 12% in Bristol, to 2.2% in the Forest of Dean. Demand for the stock is extremely high within Bristol and other areas in which Solon operates.

Viable – Regulatory Code part 1

The association meets the expectations set out in the Regulatory Code in terms of financial viability.

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As at 31 March 2008 the association had an annual turnover of c£4.1m, employing 30 full-time equivalent staff.

Historically Solon has produced strong financial results, with overall surpluses in excess of £500k per annum and interest cover (EBITDA MRI, which the TSA uses to assess the association's ability to meet interest payments) well above 200%. Recently property sales have become increasingly significant, to the extent that this accounted for the entire overall surplus of £866k for 2007/08; in that year interest cover fell to 109% due to higher interest costs associated with an increased development programme and increases in repairs expenditure (including Decent Home Standard (DHS) expenditure) and management costs.

Solon's 2008 capacity model forecasts overall surpluses continuing at c£500k per annum, based on significant levels of future property sales, and confirms compliance with loan covenants. Interest cover remains well above 120% over the majority of the plan, though it is predicted to fall over the medium term to a low of 112% in 2014/15 as debt increases in line with the association's development plans. Operating margins are currently low (9% in 2008/09), reflecting relatively high ongoing repairs costs associated with older properties that are expensive to maintain and higher staffing costs associated with supported housing activities. Over the medium term operating margins rise to lower quartile levels (c20%) due to

economies of scale derived from increased unit numbers and lower unit costs as older expensive properties are replaced by newly developed properties. Debt/EBITDA rises to 14 times in 2013/14, in line with peak debt. Debt per unit peaks at c£17k in 2010/11 and remains around the lower quartile over the majority of the forecast.

The 2008 capacity model shows five significant changes from the previous capacity model:

- Planning assumptions are now far less prudent than shown previously and in comparison to other housing associations; real building and repairs cost inflation has been reduced from 1% to 0%, real management cost inflation has been reduced from 0.5% to 0.2%, the real variable interest rate has been reduced from 3.5% to 2.5% and general RPI (which drives rent increases) has been increased from 2.75% to 3%
- The rent plan now shows that future rents will be charged using the full permitted tolerance above target rents (i.e. +5% for general needs and +10% for supported housing), which increases planned income but effectively removes a contingency from the business plan
- Higher major repairs costs have been identified following recent stock condition work
- Higher management costs have been incorporated, arising from staffing increases for maintenance and development activities
- Planned property disposals have been re-phased from c160 units previously shown only over the short term to a more even and longer profile of five units per annum into the longer term.

The current development programme includes 537 general needs and 112 shared ownership properties over the first six years of the plan, with total scheme costs of c£36m at an average grant rate of 16%. 252 of these units are shown as 'committed', being schemes approved by the board. Solon has subsequently confirmed that the true committed number (committed in the context of contractually binding as opposed to approved by the board) is much lower, being 128 units as at December 2008. Development of only the truly committed units would leave total debt well within Solon's current loan facility of £12.6m, although this would be exceeded during the latter part of 2009/10 if all uncommitted development goes ahead.

In response to the recent downturn in the housing market, Solon is now intending to reduce its development programme and remove all future disposals from its next business plan. Latest estimates are that this would result in overall deficits of c£200k per annum from 2008/09 to 2010/11, with rising surpluses predicted thereafter. As a result interest cover would drop to 80-90% over the short term, which is below the loan covenant level of 110%, although this would not result in a covenant breach as (unusually) the agreed covenant measure can be topped up by transfers from available designated reserves into the income and expenditure account.

Flexing the capacity model to remove future property sales, eliminate uncommitted

development and incorporate sector norm planning assumptions indicates that Solon's financial position would remain healthy throughout the plan period, with interest cover generally remaining above 130%.

Solon has confirmed that it will achieve compliance with the DHS by 2010.

Solon's actual rents are currently broadly in line with target and the association has confirmed compliance with rent restructuring by 2012.

Properly governed – Regulatory Code part 2

The governing body, supported by appropriate governance and executive arrangements, maintains satisfactory control of the organisation.

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The association's board currently comprises 14 members, of which three are residents, and the rest are independent. There have been a number of recent changes in board members. A new chair is now in place, who was part of the board before taking up this post. Succession planning is in place, and members are recruited according to expertise required. Skills on the board are in line with our expectations for an organisation of this size.

The board meets six times a year. Attendance levels have improved, and are actively monitored by the association. Annual appraisals are carried out, based on self assessment of board and individual performance and competency. This is supplemented by 360 degree appraisals. The appraisal process is overseen by external consultants. A skills audit is also carried out each year. These processes inform the training and development programmes for board members, and succession planning.

The board is supported by an audit and finance committee and a resident participation and equal opportunities committee. Other committees are in place, and meet as and when needed. These include a nominations committee, an appeals committee, and a remuneration committee.

Solon carried out a review of its governance and strategic planning arrangements in 2007/08, which provided assurance that appropriate processes are in place for the preparation of, and monitoring progress against, the business plan and 30 year financial plan. The review identified a number of recommendations for further improvement, including quarterly reviews of progress against management plans, which have now been implemented. In addition, an annual review is carried out to assess the extent that Solon complies with good practice on governance arrangements. A governance improvement plan is developed and implemented each year as a result.

Solon has adequate arrangements for managing risk. It has a risk assessment and management framework in place which is used to identify key strategic and operational risks, along with controls to avoid risks materialising. A risk management progress monitor has been developed, enabling regular review of progress on implementing recommendations from the risk assessment. This is updated annually.

All internal audit reports consider the relationship of the area under review to the risk map. All board reports, and reports to other committees include links to the risk map.

Solon complies with our requirements on equality and diversity. An equality and diversity policy and code of practice is in place, which has been developed with input from residents. The policy is supported by disability and gender equality action plans, and performance monitoring of key targets. In 2007/08, 38% of new lettings were made to BME people, which exceeded the association's target of 25%.

Solon submitted a thorough and detailed self assessment statement of compliance (SACS) in July 2008. The SACS referred to evidence to demonstrate compliance with the Regulatory Code, and identified areas for further improvement, including collection of former tenant rent arrears and repairs performance. The association has agreed that future statements will focus more on key events, changes and developments which have taken place in the previous year to avoid re-stating compliance previously given. Progress on these points will be monitored as part of our ongoing regulation.

Solon has taken a number of steps to improve resident involvement. Resident involvement is overseen by a board committee, and is a key objective in Solon's business plan. A dedicated resident involvement officer post was established in 2007 to develop and support involvement opportunities. In conjunction with residents, Solon has updated its resident involvement strategy to incorporate a wider range of involvement opportunities. These include a resident's forum and maintenance forum, an editorial panel for the tenant's newsletter, and community fun days. Vulnerable tenants are encouraged and supported to take part in activities. Solon is also a co-founder of the Bristol Partnership for Residents which brings together residents from several local housing associations to discuss common issues and topics and provide a residents' support network.

All staff have been trained on the principles of impact assessment and are now required to record details of engagement with residents where this is regarded as involvement work. An annual impact assessment is carried out and the findings are developed into action plans. A STATUS survey is currently being carried out. We will follow up developments on implementing these improvements with the association.

Plans are being developed to implement and collect tenant profile information, to improve service provision. We will monitor progress on this with the association.

Properly managed – Regulatory Code part 3

The association generally meets the standard expected given the context in which it works and the available resources.

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Solon has an experienced senior management team, which consists of a chief executive, finance director, and customer services director. The association works with the TSA in an open and co-operative manner.

An asset management review was carried out in March 2008. This indicated that Solon broadly complied with our requirements. The review identified a number of areas of work in progress, which were followed up in a subsequent review in November 2008. This included monitoring progress on stock condition surveys, work relating to the DHS, plans for development and disposal of stock, and updates to the financial plan. Solon now has almost 100% stock condition information, which is informing works programmes and budgets. Overall good progress has been made, and we will continue to monitor those actions that are ongoing as part of our regulatory engagement. As at March 2008, DHS compliance was 91%.

Performance indicators for 2007/08 show below average performance on SAP rating, and re-let times, compared to national averages. Performance on the proportion of social housing dwellings vacant at 31 March 2008 was lower quartile at 4.8%. The last STATUS survey carried out in 2006 showed that overall tenant satisfaction, satisfaction with opportunities for participation and satisfaction with repairs and maintenance were lower quartile at 74%, 47% and 67% respectively.

Solon is continuing to take action to improve performance, and the association's performance reports for 2008/09 show improvement in a number of areas. One of the measures taken to improve performance has been in establishing new long term repairs and maintenance contracts in 2008. Performance issues relating to previous partnering arrangements resulted in delays in re-let times, higher numbers of vacant dwellings, and ultimately on tenant satisfaction. Solon is monitoring performance of the new contractors, with a focus on costs, performance and customer satisfaction. The new repairs contractors attend the maintenance forum to improve communication with tenants.

The board receives quarterly performance indicator reports covering key areas, with explanations where performance is below target. The board also receives performance indicator profiling and benchmarking information comparing performance with other housing associations. Performance information is provided to residents in the annual report, which is sent to every household. Solon will explore with the resident's forum options for developing performance reporting further. We will continue to monitor Solon's performance in these areas.

The association demonstrates a focus on continuous improvement. An annual plan is in place to carry out at least four internal audits, which are conducted by external consultants. A follow up review is done each year to review progress on implementing recommendations from these audits. The audit programme is informed by the issues and risks identified through the risk management framework. Recent audits include risk management, resident involvement and rent arrears. No significant areas of concern were identified.

An additional review was carried out in 2006/07 to identify performance against the Audit Commission key lines of enquiry. An action plan was developed following this review to improve performance further. This was integrated into managers' action plans to promote continuous improvement throughout the association. A follow up review will be carried out in 2008/09 to assess progress.

The association complies with the requirement to work with local authorities to enable them to fulfil their duties. Solon staff are actively involved in working with local authorities to develop and improve lettings and allocations processes. The

customer services director is a member of the project board for choice based lettings in Bristol, and Solon is a member of the Bristol Housing Partnership. In 2007 the Housing Corporation carried out a survey of local authority views of housing associations that operate in their area. Bristol City Council confirmed a good working relationship with the association.

Sources of information and regulatory activity

The following information is generally received from all associations and is reviewed by the TSA (and prior to 1 December 2008, the Housing Corporation) for each association:

- Audited annual accounts, including the internal controls assurance statement
- External auditors' management letter
- Annual self-assessment of compliance with the Regulatory Code
- Financial forecasts
- Performance indicators
- Regulatory and Statistical Return

In addition to the above, the following specific activities were carried out for Solon South West Housing Association:

- Meetings with executive team (November 2008);
- Asset management review (March and November 2008);
- Annual Financial Health Check (December 2008), based on 30-year capacity model forecast received June 2008
- Quarterly credit and housing market survey

Additional information about the association can be accessed on the TSA website, the Housing Corporation legacy website and other websites and may include:

- Performance indicator information (www.housingcorp.gov.uk)
- Inspection reports (www.audit-commission.gov.uk)
- Extracts from the Public Register (www.tenantservicesauthority.org)
- Rent information and other key facts and figures (www.rsrsurvey.co.uk and www.dataspring.org.uk)