



# **Housing Corporation Assessment**

**Sovereign Housing Group L4438**

**Sovereign Housing Association L3865**  
**Twynham Housing Association L3886**  
**The Vale Housing Association LH4061**

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# Housing Corporation Assessment

The 'traffic light' system used below illustrates our overall assessment of the association's compliance with the Regulatory Code and development performance. A green symbol indicates no material concerns about performance, the association is either complying with the Regulatory Code or taking sufficient steps to comply with the Code within a reasonable timescale; an amber symbol indicates some material concerns about performance, resulting in Corporation action above the minimum; a red symbol indicates serious concerns about performance.

## **VIABLE**

Measuring compliance with the Regulatory Code part 1

Green

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

## **PROPERLY GOVERNED**

Measuring compliance with the Regulatory Code part 2

Green

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

## **PROPERLY MANAGED**

Measuring compliance with the Regulatory Code part 3

Green

**The group generally meets the standards expected given the context in which it works and the available resources.**

## **DEVELOPMENT**

Development with Housing Corporation funding

Green

**The group demonstrates a good performance by achieving or exceeding its annual targets, maintaining good progress against targets during the year and delivering quality housing that meets our standards.**

In preparing this assessment the Corporation has placed reliance on the completeness and accuracy of information supplied to us 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. We increasingly rely on associations' self assessment.

The assessment has been compiled to assist the Housing Corporation in its statutory duty of regulation of Registered Social Landlords. Our assessment makes clear to the association's board the conclusions we have reached regarding the association's compliance with the Regulatory Code and its suitability to receive public funding. The Corporation 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

The Sovereign Housing Group (SHG) structure came into effect in April 2005, when Sovereign Housing Association merged with Twynham Housing Association. The joint objectives were to achieve greater efficiencies and improved quality in service delivery to residents and to achieve growth through the development of more homes across the south of England. The group was recently expanded following the inclusion of The Vale Housing Association in April 2007 with the aim of rationalising stock, improving services and enhancing development opportunities. SHG is a charitable, non asset holding group parent, providing strategic and corporate services, including development, home ownership marketing and asset management, to other members of the group.

The group comprises:

- Sovereign Housing Association (SHA), an asset holding subsidiary of SHG, created in 1989 to take over 7,000 homes for rent from West Berkshire Council. SHA has been a significant and major developer of new social housing in the south for many years and now owns or manages more than 13,600 homes in 58 local authority areas. SHA is active in Devon, Somerset, Hampshire, Berkshire, West of England, Wiltshire and Gloucestershire. Nearly 80% of its properties are affordable housing for rent, the rest are divided between sheltered accommodation or accommodation for those who need extra support, and low cost home ownership.
- Twynham Housing Association (Twynham), a stock transfer organisation set up to receive the housing stock comprising around 2,700 mainly general needs homes of Christchurch Borough Council in Dorset in 1991. Twynham now owns or manages about 3,500 homes, mainly in Dorset, including some 1,200 homes managed on behalf of SHA.
- The Vale Housing Association (Vale), which took the housing stock of Vale of White Horse District Council in 1995. It now owns over 6,400 homes in Oxfordshire and South Northamptonshire.

The black and minority ethnic (BME) profiles within the group's area of operation vary considerably. Most of the stock of SHA is in West Berkshire, which has a BME population of 2.7%. Christchurch, where much of Twynham's stock is based, has a BME population of 1.1%. Vale's main area of operation has a BME population of 3.5%. The group operates in areas of relatively high property values, with significant unmet demand for affordable housing.

The group's mission statement is based on forming partnerships to provide homes where people want to live.

SHG's current strategy is to grow through merger and development. This is underpinned by its vision to be a leading housing group across southern England, providing a range of high quality homes and services to meet people's changing circumstances. It has three key corporate objectives:

- To make sure its homes and services improve the quality of life in people's communities.

- To optimise its financial strength as a group to build more new homes and improve neighbourhoods.
- To be a leading, influential and sustainable social business.

These objectives are shared by all group members and provide the context and framework for a series of supporting strategies relating to the subsidiaries, including development, home ownership, organisational development and efficiency. The group is considering further expansion in order to achieve greater operational efficiencies that can be reinvested in new homes and improved services for residents.

SHG is the lead organisation in the Sovereign Development Consortium, one of the Corporation's investment partners.

**Viable** – Regulatory Code part 1

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

### **Housing Corporation Assessment**

The group's 2008 financial plan shows that SHG's financial condition is satisfactory. This position will continue as operating margins and surpluses are expected to remain stable after debt servicing. Its financial performance and cash-flow strength improve over the short to medium term. The financial forecast projects that its total turnover will increase consistently throughout the 30-year forecast and its operating margin are within the upper quartile for RSLs in the South East Region. This is primarily due to new homes being developed, as well as the impact of rent restructuring.

Debt levels are expected to increase significantly to fund its development activity. EBITDA interest cover, which the Housing Corporation uses to assess an association's ability to meet interest payments, is satisfactory and is returned within the medium levels for the South East Region. EBITDA MRI, which eliminates the impact of different accounting treatments for works to existing properties, is also at acceptable levels.

SHG's financial profile includes cash flow from shared ownership sales. This business activity is more volatile than the traditional rented business and consequently there is a risk that capital receipts may fall short of business plan projections. At the end of September 2008, SHG reported that there were only 22 unsold homes (aged over three months) and sales valuations on sold dwellings while lower, continued to perform to its planning assumptions. SHG has tested their business plan in a number of different ways including lower/slower first tranche sales, a fall in staircasing and/or a slow down in development itself. In all scenarios, SHG is able to meet its commitments.

Developments in the housing and financial markets have the potential to impact significantly on the viability and developmental targets of the sector. Against this background an important challenge for the group will be to deliver the new homes whilst ensuring that the projected improvement in its financial strength is not put at risk.

The board monitors the group's financial position closely in order to manage the increased risk that current uncertainty within the housing and capital markets presents.

This review, together with the fact that the association has sufficient undrawn loan facilities should enable remedial measures to be adopted at an early stage.

The group's long term financial plans show that funds are available to carry out the necessary work to meet DHS by 2010. However, the Corporation has consented to Twynham extending the period for undertaking the works to 192 properties in order to co-ordinate property improvement works with the regeneration of the Somerford estate in Christchurch. The deadline for these has been extended to December 2013. For the remainder of its stock, Twynham has continued to make progress towards achieving the DHS with compliance at 92% at the end of 2007/08. This progress is reported to the Board on a quarterly basis and plans are in place to achieve full compliance by 2010.

SHA and Vale are working towards rent convergence and expect to fully comply by 2012 with rents set at the maximum of the permitted 5% tolerance for most of the group.

### **Properly Governed – Regulatory Code part 2**

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

### **Housing Corporation Assessment**

The governance arrangements at SHG have required change in recent months in order to accommodate the inclusion of Vale as a subsidiary within the group, and the plans for further growth. The group is responding effectively to the need for significant restructuring to the governance arrangements. During the period of actual and anticipated change, SHG has taken the opportunity to address gaps in knowledge and strength, and to improve its commitment to resident involvement in guiding and shaping its services.

The board of SHG comprises twelve members, plus the group chief executive as a co-optee. There is a gender imbalance on the group board with only four women, and no representatives from the BME communities. However, following recent recruitment the subsidiary boards now have a diversity which is consistent with local demographics, in terms of ethnicity, gender, sexual orientation and disability. The group board includes members nominated by each subsidiary in order to provide the link with the parent. Seven of the group board are independent members. The board is supported by the group remuneration and governance committee, a group audit and risk committee and a group treasury committee. All boards have been remunerating their members since May 2008.

The boards are scheduled to meet six times a year and the committees quarterly, although more frequent meetings to deal with circumstances such as the credit crunch have been arranged outside the scheduled cycle. The focus on strategic issues adopted by the board is supported by subsidiary boards which have an operational focus. All three subsidiary boards include three places dedicated for resident board members. External reviews have recently been conducted in order to assess the role and performance of the subsidiary boards within the group structure. The response to the critical analysis has been positive, and changes have been planned in order to produce a cohesive and interactive governance structure.

The board training programme is currently being enhanced in order to incorporate both generic training and support and specific training aimed at particular needs and interests. Resident board members are supported by staff to help them to maximise their contribution. Board members participate in a performance appraisal process to ensure that skills are regularly updated.

The group's self assessment statement of compliance against the Regulatory Code for 2007/08 concluded the group complies with the Code. The statement was comprehensive, well evidenced and it was clear about where the group considers it complies and where there is room for improvement and what future action has been identified. Performance of the component members of the group was well identified.

The group demonstrates a commitment to real engagement with residents in a variety of ways and at different levels within the organisation and has effective approaches to resident involvement and support. In addition to resident board members, these include monitoring resident satisfaction levels on a regular basis using a variety of data and sources of information, as well as involving residents in contractor selection panels and policy reviews. In 2008, the senior management team participated in a Challenge day, at which residents were able to comment on performance and ask questions.

The group's approach to equality and diversity was externally audited in 2007, and the resulting action was a strategy which meets our requirements in relation to equality and diversity. The policy is comprehensive, and is overseen by a group equalities forum, set up to challenge and review performance against expectations, and which comprises representatives from both staff and board.

We consider that the group is seeking to maintain the highest standards of probity in all its activities and deals with the Corporation in an open and co-operative manner.

SHG's risk management strategy is reviewed on an annual basis. This includes a review of the risk map, which focuses upon the key risks, with the potential impact evaluated against the business plan. SHG has recently developed a more sophisticated risk management approach which more clearly differentiates between strategic and operational risks.

### **Properly Managed – Regulatory Code part 3**

**The group generally meets the standards expected given the context in which it works and the available resources.**

### **Housing Corporation Assessment**

During 2008, the group revised its management structure. The group structure is based on each subsidiary having its own managing director who reports to the group chief executive and is a member of the group management team. As well as the managing directors, and the chief executive, the management team includes group directors for resources, finance, and development. Although the group's style is collegiate, rather than centralist, the management team meets at least monthly to oversee the work of the group and to ensure that it is properly co-ordinated. There is a healthy working relationship

between the executive as a whole and the board, with a good level of mutual trust, openness and respect. The executive team has the appropriate experience and capacity to run an expanded business following the addition of Vale to the group.

The group places considerable emphasis on maintaining a proactive dialogue with its local authority partners and other key stakeholders, testing external perception of the service delivery and performance of subsidiaries, and discussing direction and challenges to support continuous improvement and service planning for the future. In addition to playing an active role with their original sponsoring councils, all group members are involved in key strategic and sub-regional strategic frameworks.

The group has developed a comprehensive approach to asset management based on the principle that it should enhance the value of the business with a view to achieving the right mix of properties in the right locations, creating, maintaining and unlocking asset value. The approach considers issues such as stock rationalisation, regeneration, future investment and stock condition beyond the Decent Homes target. As a result the group can review its areas of operation from a strategic perspective and plans to withdraw from areas where stock levels are not significant, and there is no immediate prospect of growth to more sustainable levels.

The Audit Commission carried out an inspection of Twynham in early 2008 and found that the housing services were fair, one star, with promising prospects for improvement. The inspectors commented on the good condition of the tenants' homes and estates, and that investment decisions on maintenance and improvements were made on robust information. The inspectors found weaknesses in the approach to resident involvement, and that the standard of re-lets was inconsistent. Evidence was found of management taking tough decisions to tackle improvement in performance, and the report indicated that being a member of the group has been beneficial as support had been provided to deal with weaknesses. Twynham has developed an action plan to implement the recommendations made by the Commission and we are satisfied with the level of progress made.

SHA's service delivery was inspected by the Audit Commission in autumn 2004. The report concluded that the services provided by SHA were good. The inspection recognised a positive approach to continuous improvement and a robust approach to anti-social behaviour. The association adopted a positive approach to recommendations in the report. We have been satisfied with the response, and following an assessment of progress made, the inspection was signed off as complete in April 2007. Vale was inspected in 2003 and assessed as providing a good service.

We have conducted a post-merger review in order to assess the progress of the integration of Vale into the group. We noted improvements including joint working and stock rationalisation, and the provision of specialist services on a group-wide basis. We are satisfied that the improvements anticipated at the planning stages of the merger have been achieved.

Performance against key service delivery indicators is generally satisfactory, although repairs performance deteriorated primarily due to the unexpected level of activity caused by the flooding of large geographical areas in which Sovereign has a concentration of housing stock. We are, however, satisfied that the expansion of the group is ensuring improvements of service delivery, and the underlying trend is upwards. Lettings to BME

households demonstrate that the association consistently performs well above the BME population ratios.

**Development** with Housing Corporation funding

**The group demonstrates a good performance by achieving or exceeding its annual targets, maintaining good progress against targets during the year and delivering quality housing that meets our standards.**

### **Housing Corporation Assessment**

SHG is the leading organisation in the Sovereign Development Consortium and has a history of good delivery. In 2007/08 and thus far in 2008/09 allocations to the group have been made in the South West and South East regions.

The group has delivered homes for rent, low cost home ownership and intermediate rent. In addition, in 2007/08, SHG completed 28 homes through home ownership for people with long-term disabilities.

SHG over-performed on all of its targets in 2007/08. The end of year actual expenditure for the group was £21 million, compared to a start of year target of £12 million. End of year actual completions were 314, compared with a target of 303.

So far in 2008/09, SHA has an allocation of £2.6 million in the South East and £6 million in the South West and Vale has an allocation of £3 million in the South East, a total of £11.6 million.

In 2007/08, we conducted compliance audits on three of SHA's schemes and impact assessments on a number of other schemes. No significant issues were identified; scheme quality was good and it was noted positively that some units were built to Lifetime Homes standards.

In 2007/08, compliance audit and impact assessments on two of Vale's schemes identified no significant issues. Scheme quality was good and it was noted positively that some units were built to Lifetime Homes standards.

Sovereign Development Consortium has a good record of communication with the Housing Corporation.

### **Sources of information and regulatory activity**

The following information is generally received from all associations and is reviewed by the 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
- Five year financial forecast

- Performance indicators
- Regulatory and statistical return
- Annual efficiency statement

In addition to the above, the following specific activities were carried out for Sovereign Housing Group:

- Quarterly meetings with executive and chair
- Inspection follow-up work at Twynham (March 2008)
- Post-merger review (July 2008)
- Annual Viability Review (February 2008)

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

- Performance indicator information ([www.housingpis.co.uk](http://www.housingpis.co.uk))
- Inspection report ([www.housingcorp.gov.uk](http://www.housingcorp.gov.uk) for Housing Corporation reports or [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk) for Audit Commission reports)
- Extracts from the Public Register ([www.housingcorp.gov.uk/server/show/nav.489](http://www.housingcorp.gov.uk/server/show/nav.489))
- Rent information and other key facts and figures ([www.rsrsurvey.co.uk](http://www.rsrsurvey.co.uk) and [www.dataspring.org.uk](http://www.dataspring.org.uk))