



Housing Corporation Assessment

West Devon Homes Ltd LH4198

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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 association meets the expectations set out in the Regulatory Code in terms of financial viability, however exposures exist which make it vulnerable to deterioration.

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

DEVELOPMENT

Development with Housing Corporation funding

Green

The association 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 association

West Devon Homes Ltd (WDH) is a charitable stock transfer association registered with the Housing Corporation in 1999. It owns and manages 1,555 homes, four shops and 256 garages. It operates almost exclusively within the rural West Devon Borough Council area, predominantly in and around the small towns of Tavistock and Okehampton where the two offices are based.

WDH works within and adjacent to the Dartmoor National Park where house prices are relatively high and development is restricted. Therefore demand for affordable housing is high and there is significant competition for development land. Black and minority ethnic (BME) people to make up approximately 2.7% of the resident population of West Devon (2006).

WDH's mission statement is to support local communities through the provision of affordable homes and services. It works to achieve this through investing in existing homes, delivering core services and developing new homes. The association works with other organisations, including the local authority and private sector developers, to achieve this.

Viable – Regulatory Code part 1

The association meets the expectations set out in the Regulatory Code in terms of financial viability, however exposures exist which make it vulnerable to deterioration.

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As at March 2008 the association had an annual turnover of £5.2m and employed around 45 staff.

Over recent years WDH has achieved relatively healthy surpluses, although the underlying results are closer to a break-even position now that Right to Buy sales have tailed off and given that a backlog of major repairs spend has arisen over the past two years. The latest financial projections incorporate higher levels of repairs spend identified by a recent in-house stock condition survey and assume that the backlog of major repairs work will be cleared over the next few years. This has resulted in a relatively weak financial profile now being forecast over the short term, particularly in 2009/10 and 2010/11 when it is projected that deficits of around £1m will be incurred, with operating margins dropping to 5% and interest cover (EBITDA MRI basis) of around 50%. Moreover, loan covenant breaches are now forecast from 2009/10 onwards, pending validation and agreement of the association's recently updated long-term financial plan.

Over the medium to long term, there is a significant improvement in the debt profile, with peak debt around £5m lower and now just within the current £24m loan facility, occurring one year later in 2015, albeit with the year of loan repayment now extended by two years until 2035. This has been achieved by reducing the planned development by nearly 100 units, leaving a five-year programme of around 60 new homes. Debt per unit

remains relatively low, peaking at just £14k, and the debt to earnings ratio reduces from 12 times in 2012/13.

WDH has confirmed that it will achieve compliance with the Decent Homes Standard (DHS) by 2010 and currently 97% of stock complies. The repairs spend profile shown in the latest financial plan assumes asset replacement life cycles of 30 years for kitchens and 40 years for bathrooms, which is the maximum allowed under the DHS disrepair criterion. However, this is beyond the 20 and 30 years limits set out under the reasonably modern facilities and services criterion, for which only three 'fails' are permitted and thereby allows little margin. This makes WDH a clear outlier compared with other associations that typically use 20 and 30 year life cycle assumptions. Effectively, albeit not technically, this means that WDH is planning beyond the maximum for what is a minimum standard.

WDH has confirmed that its rents converge in April 2011 and will therefore meet the rent restructuring target by 2012. The association is making use of the permitted rent tolerance of +5% for general needs.

WDH's differential inflation assumptions built into the financial forecast are generally within the mid range for the sector and floating interest rate assumptions are relatively prudent. Moreover, it is considered that the major repairs spend profile includes some allowance for contingencies and that the development programme could be reduced by a further 30 units, should the need arise.

However, the business plan looks tight, particularly over the short term, and there are a number of exposures that could leave the association's financial position vulnerable to deterioration. These include:

- Uncertainties relating to the robustness of the latest stock condition data and new financial plan, until they have been externally validated.
- Uncertainties relating to whether or not the existing loan facility will be reassessed, and if so on what terms, pending approval by lenders of the new financial plan, given that covenant breaches based on the previous financial plan are now being forecast.
- Seemingly imprudent assumptions for kitchen and bathroom life cycles that significantly exceed the DHS criterion for reasonably modern facilities guideline maxima; the financial impact of adopting the assumptions typically used by other associations has yet to be quantified.
- Few readily implementable contingencies, particularly given that only short term development is included in the business plan and that the maximum permitted rents tolerance has already been utilised.

This effectively represents a downgrade in our viability assessment, which previously identified no material exposures

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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Following consultation with its tenants and West Devon Borough Council, in September 2007 the board was restructured, reducing in size from 15 to 12 members with the ratios adjusted to three local authority, three tenant and six independent members. One third of board members are female and there is one BME representative. The board size and range of experience, gender and ethnicity is accordance with Housing Corporation expectations.

The board meets at least four times a year, and is supported by three committees, operations, resources and audit. Following board restructuring, training has been provided by an external consultant covering governance, regulation, risk management and audit. The conduct, performance and effectiveness of board members and senior officers was evaluated by an external consultant in April 2008. The consultant's view was that board meetings were well run, with members participating, bringing their expertise to bear and holding officers to account. An action plan to address the areas for improvement identified has now been implemented. The association does not currently pay board members but reviews this every two years.

Tenant satisfaction with WDH overall is very good, with 91% of tenants satisfied. This represents a slight decline from 93% in 2006, but remains in the top quartile.

A new tenant involvement policy jointly was approved by the board in March 2008. The timing means that the annual involvement impact assessment will be delayed until 2008/09. A range of methods are used to maximise opportunities for tenant feedback. There is a tenants' panel which includes the tenant board members and 10 other elected representatives. The panel allows tenants to have a direct say over the policies considered by the board. In addition any tenant can apply to become a tenant member of WDH and vote at general meetings, where one third of the eligible vote is given to tenants. The Think Bank formed in 2006/07 is a self-selected group of customer volunteers interested in involvement in shaping services.

WDH have implemented a number of equality and diversity improvements during the last two years. However, work to ensure compliance with the requirement to produce disability and gender equality action plans has not been prioritised. We have requested further information to provide assurance that this is being addressed, and will monitor progress. The association is in the process of updating its equality and diversity strategy and policies. As a result the equality action plans and further improvements are expected to be delivered during 2008/09. Equality and diversity is one of three key concepts underpinning WDH's approach to performance improvement. All staff, and the majority of board members received equality and diversity and customer care training during 2007/08. Satisfaction amongst BME residents is similar to that of the whole tenant population.

WDH is developing its risk model to establish stronger links to its strategic objectives and use of performance data in the assessment and management of risk. Quarterly reporting to the board and its committees focuses specifically on risk assessments and performance indicators. This approach is in line with Housing Corporation expectations.

WDH's 2008 self assessment compliant statement (SACS) indicates partial compliance with some sections of the Regulatory Code, relevant circulars and good practice notes.

In these areas there are plans in place and work in progress to achieve full compliance. The assessment was reviewed and approved by the board. The association has subsequently provided assurance that it has confidence in its data security processes, one of six specific areas on which information was requested in the 2008 guidance.

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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The senior management team consists of a chief executive supported by a director of resources and a housing services manager.

Analysis of the 2007 performance indicators shows WDH's performance to be better than the national average for tenant arrears, vacant dwellings, DHS failures, and tenant satisfaction with participation. Tenant satisfaction overall is in the top quartile nationally.

Performance is below the national average for re-let times. The association's own figures show only a minor improvement to 30 days against a target of 22 days despite new voids procedures in place. West Devon Borough Council expressed concerns about the void times in the local authority survey feedback. The association anticipates improvements from increased monitoring and the appointment of a new contractor in September 2008.

The performance indicator for routine repairs completed in target remains in the lower quartile at 80%. The association's own figures indicate that this has improved to 91% during 2007/08. The proportion of emergency and urgent repairs completed in target have also improved and are 97% and 93% respectively. Tenant satisfaction with repairs is top quartile. An extensive review of the responsive maintenance service's procedures during 2007 is being used to target service improvement work.

In 2007/08 WDH adopted a new evidenced-based service improvement model. The model uses an annual assessment of performance across all services, which is used to inform the development of service improvement plans. It is underpinned by the key concepts of: customer involvement; equality and diversity; and health, safety and welfare.

Monitoring returns indicate a low percentage of lettings to BME households (0.8% in 2007/08 and 1.9% in 2006/07). WDH's 2008 SACS reports 1.6% of the housing register to be BME applicants. Participation in the local choice based lettings gives the association no control over the selection process.

The 2008 SACS describes a number of ways in which the association works with its key stakeholders including the local authority. In 2007 the Housing Corporation carried out a survey of local authority views of the housing association sector. Responding to the survey, West Devon Borough Council confirmed a good working relationship with the association. The association has responded positively to this feedback.

Development with Housing Corporation funding

The association 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.

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The association has a very good programme delivery performance, achieving 100% of its adjusted (for any in year additions) 2007/208 start of year cash spend, start on site and rent completions targets of £116k , 23 homes and 23 homes, respectively.

The association is not currently a development partner. Under our continuous market engagement the association has recently received an allocation for £180k for four rented units.

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 2007/08.
- External auditors' management letter 2007/08.
- 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 West Devon Homes:

- Annual Viability Review, October 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).
- Inspection report (www.housingcorp.gov.uk for Housing Corporation reports or www.audit-commission.gov.uk for Audit Commission reports).
- Extracts from the Public Register (www.housingcorp.gov.uk/server/show/nav.489).
- Rent information and other key facts and figures (www.rsrsurvey.co.uk and www.dataspring.org.uk).