

Tenant Services Authority Revised Regulatory Judgement

Home Group Limited (L3076)

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Tenant Services Authority

Revised Regulatory Judgement

The Tenant Services Authority (TSA) has prepared this report to set out its overall assessment of the provider's compliance with the Governance and Financial Viability standard for registered providers (RPs). These requirements are set out in the Regulatory Framework established by the TSA.

Overall Conclusion

This regulatory judgement confirms that the TSA remains satisfied with Home's viability and governance. The TSA considers that:

- **Viable:**

The group meets the requirements set out in the Governance and Financial Viability standard of the Regulatory Framework in relation to financial viability, however exposures exist which make it vulnerable to deterioration.

- **Properly Governed:**

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

Assessments for both viability and governance are unchanged from the previous published judgement. The group has sufficient funding for the short and long term and has adequate unutilised security to enable draw downs to be made. There have been no covenant breaches and none are forecast. A number of significant projects are ongoing which, although not threatening Home's viability, have financial implications that will affect its ability to achieve strategic objectives. The group is forecasting a medium term return to reliance on property sales to generate overall surplus.

Home has clearly defined its corporate strategy for the next five years and has identified and is managing the risks associated with delivering it. The board is committed and well positioned to drive progress. Home accepts it needs to make improvements in a number of areas and the executive is leading organisational changes to ensure that Home is appropriately structured and resourced to make required improvements and achieve strategic objectives.

Description of the provider

Home Group Limited (Home or the group) is a registered charitable housing association which owns and manages around 47,000 properties. It operates throughout England and Scotland. It has a particularly strong presence in the north east, north west and the south east and a significant number of homes in Yorkshire and Scotland. Around 18% of total stock is supported housing managed by Home's care and support division, Stonham. Home has three subsidiaries; Home Scotland, a charitable association registered with the Scottish Housing Regulator; Home Group Developments Limited, an unregistered company which undertakes housing for sale, land banking for mixed tenure developments and construction of affordable housing for rent; and Livesmart@Home, an unregistered company specialising in market and intermediate rent activity.

Home was established in 1935 and the nature of the stock reflects its long history. Since 1974 it has been an active developer of new homes and has grown through merger. Its stock comprises purpose built houses and flats, improved older terraced housing and former local authority stock. Home is also a major provider of homes under various low cost home ownership initiatives and is involved in a variety of intermediate and market rented activities.

Home works in a number of challenging operating environments and throughout its history has worked on numerous major regeneration projects. It has holdings in the Housing Market Renewal pathfinder area covering Newcastle and Gateshead and has significant numbers of former local authority stock in Copeland, West Cumbria, where just under half of wards feature in the worst 20% of the national Index of Multiple Deprivation 2007.

Viable

The group meets the requirements set out in the Governance and Financial Viability standard of the Regulatory Framework in relation to financial viability, however exposures exist which make it vulnerable to deterioration.

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This judgement is unchanged from the one published previously. Home has sufficient funding in place to meet business requirements. It has total funding facilities of around £1bn which is estimated to be sufficient for at least the next three years and has enough unutilised security to enable loan draw downs to be made. Its treasury management strategy is appropriate for the business and exposure to rising interest rates is well managed.

The group's EBITDA MRI ratio is low, being below 100% in three of the next five years. The TSA uses this ratio to assess a provider's ability to meet interest payments, whilst eliminating the impact of different accounting treatments for works to existing properties. The main reasons for the ratio being low are the high level of major repairs expenditure included within the plan to meet Home's decent homes plus standard and the significant level of care and support activity undertaken within Home which generally produces much lower margins than general needs housing activity.

Home has carried out some broad scenario testing where it has explored the impact on the business plan of some risk exposures. However, it has not tested the sensitivity of

its loan covenants to variations in key business plan assumptions.

If Home is to deliver its business plan successfully it will need to carefully manage a number of important projects. Whilst these projects do not place the group's viability at risk they are nevertheless important if it is to achieve strategic objectives:

- Home is planning to bring its stock up to a decent homes plus 'Home' standard by 2040. Work is ongoing to agree the plus standard specification with tenants and thus the cost of the programme is unknown. Using initial estimates Home has allocated £15m per annum in the business plan which is affordable. This project presents challenges in terms of delivering the new 'Home' standard within budget whilst meeting tenant expectations.
- The group has started work on a major stock rationalisation programme that will take place over the next six years. It intends to sell stock in non-core areas to other registered providers. Efficiencies are anticipated from managing the remaining stock in core operational areas. Proceeds from sales will be invested in existing stock and in new homes in core areas. The programme is ambitious and the board has confirmed that it will not commit to capital expenditure until forecast sales proceeds are realised.
- Home has undertaken a major review of its business in order to improve efficiency. It reports that the £12m target for savings included in the 2009/10 budget was exceeded but its business plan assumes further significant efficiency savings over the next five years.
- Growth through development remains part of Home's strategy and the group is a Homes & Communities Agency partner. The latest business plan includes significantly increased levels of both committed and uncommitted development during its first six years. Delivering this may present challenges to assumptions on build costs, grant rates and cross subsidy from shared ownership and outright sales. Around two thirds of the programme is uncommitted meaning there is scope for Home to reduce the programme should adverse changes arise in the key assumptions.

The 2010 annual accounts show that for the first time in recent years Home has produced an underlying surplus without reliance on surpluses from property sales. However the stock rationalisation programme and subsequent increase in new build targets see Home forecasting a return to reliance on sales to generate an overall surplus. The most recent business plan shows that Home expects to be reliant on disposals proceeds to produce overall surpluses until 2017. In the next five years Home's business plan forecasts surpluses each year, totalling £98m. This includes surpluses from property disposals of £142m.

Home is on target to deliver the Decent Homes Standard, subject to a waiver for 539 properties in Cumbria. It remains on course to meet the requirements of the rent influencing regime by 2011/12 for general needs properties and by 2012/13 for supported housing properties.

Properly governed

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

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This judgement remains unchanged from the one published previously. Home has clearly defined its corporate strategy for the next five years and has identified and is managing the risks associated with delivering it. The board is committed and well positioned to drive progress. Home accepts it needs to make improvements in a number of areas and the executive is leading organisational changes to ensure that Home is appropriately structured and resourced to make required improvements and achieve strategic objectives.

Home's mission is to add value to its customers' and clients' lives and the communities in which they live by delivering high quality, value for money products and services which are tailored to meet customer and client needs. The organisation sets out its plans for achieving this in a clear and well defined corporate strategy for 2010/15 which breaks plans down into five specific areas including its offers on housing, care and support and neighbourhoods. The strategy details a suite of overarching strategic indicators and specific corporate indicators which will be used to track progress.

Home has streamlined governance by dissolving its former structure which was made up of a group and divisional boards. It now has just one board controlling business group wide. This facilitates more efficient and consistent decision making. The board is made up of ten non-executive directors and two executive directors. Attendance at a board meeting and other contacts with members suggests that the board delivers strong leadership and control. Its members are committed to ensuring the group's corporate strategy is delivered and exhibit a strong understanding of its work and the environment in which it operates. Members come from diverse backgrounds and bring a range of relevant expertise. The board is supported by five committees including one which oversees the delivery of transfer commitments made in connection with the former Copeland Homes stock and a governance committee which has a wide remit including monitoring the effectiveness of board performance. The board has adopted the National Housing Federation Excellence in Governance Code and is fully compliant with its principles and provisions. Board members are remunerated.

There have been significant changes within the executive management team, with five out of seven members joining Home within the past two years. New members have brought fresh expertise. The team has overseen the development of the new corporate strategy and is now focused on structuring and equipping the organisation to deliver.

Home has a clear risk management and control framework designed to ensure that exposure to significant risk is effectively managed. The board receives a quarterly update on high level risks which includes assurance on progress with mitigation actions. Risks are categorised as strategic, tactical or operational. The most significant strategic risks currently identified by Home include re-pricing of loans and delivering strong business as usual whilst achieving growth. Home has adopted a rigorous, staged approach to the assessment of new business opportunities. It seeks to ensure they are aligned with corporate strategy and financially viable before commitments are made and goes on to manage associated risks until they are integrated into normal business.

The board has adopted a performance framework which supports the long term delivery of its new corporate strategy. Resident satisfaction indicators form the core of the framework but it also includes a comprehensive, but manageable, range of other key financial, strategic and operational indicators. Its operation is in the early stages and the board and executive are continuing to assess and refine its use. The board has

requested additional benchmarking information to ensure that it sets, and drives the achievement of, challenging targets. As would be expected at the outset of the delivery of the strategy current performance is not yet meeting targets but a significant proportion of indicators show positive trends.

In April 2010 the Audit Commission carried out a short notice inspection (SNI) of the management of Home's general needs stock which focused on responsive repairs, gas servicing and resident involvement and also considered the cross cutting themes of access and customer care, diversity and value for money in those same areas. All of the inspected areas were found to have weaknesses which outweighed strengths with the exception of resident involvement where strengths and weaknesses were found to be in balance. The group accepted the report findings. Following consultation with residents Home has produced an action plan to address inspection recommendations. The Commission issued its final report in September 2010 and assessed Home as having promising prospects for improvement. In particular it concluded that strengths significantly outweighed weaknesses in terms of Home's capacity to improve.

Home has introduced a range of mechanisms which enable residents to be involved at various levels throughout the organisation. Residents have opportunities to influence Home's overall strategic direction and are also involved in developing and improving services at an operational level. Customer profiling is at an advanced stage. Two national panels, one for Home's general needs customers and one for its supported housing clients, have direct links into the executive team and board. There are two resident members on the group board. Home is committed to building capacity within its resident base to ensure that it is able to play an active role in co-regulation. The most recent Status survey result on resident satisfaction that views are taken into account falls into the lower quartiles of performance across the sector. Home is confident that the new suite of involvement mechanisms and opportunities will increase resident satisfaction in this area.

Home's approach to diversity was judged as having weaknesses which outweighed strengths in the service areas inspected during the SNI. Home accepts its approach to equality and diversity requires strengthening and had already made a corporate commitment to improvement. A number of new initiatives reflect this commitment. This includes an equality and diversity expert advisory group which has been established to provide external advice, challenge, consultancy and support to the executive team in this area of its work.

Profile Table	
RP Code	L3076
RP Name	Home Group Limited
Selected Indicators	
Tenant satisfaction with landlord services	77.9%
National average tenant satisfaction with landlord services	82.3%
Tenant satisfaction that views are taken into account	59.6%
Tenant satisfaction with repairs & maintenance service	69.8%
% Homes that comply with Decent Home Standard	95.8%
Average weekly rent levels	
Weighted average weekly rent of all general needs homes	£75.70
Number of homes by type	
General Needs	35,603
Housing for older people	2,972
Supported housing	5,436
Shared ownership properties	2,726
Total	46,737
No. of LAs in which RP operates	215

Please note: A reduced set of data requirements applies for those RPs with less than 1,000 units, hence some information is not available centrally (NA) for these providers. Latest PI data available is at March 2010

Sources of information and regulatory activity

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

- Audited annual accounts, including the internal controls assurance statement
- External auditors' management letter
- Financial forecasts
- Performance indicators
- Regulatory and Statistical Return

In addition to the above, the following specific activities were carried out for Home Group Limited:

- Meetings with executive team members (August and November 2009, June, August and November 2010)
- Attendance at board meeting (December 2009)
- Viability Review based on 30 year capacity model (November 2010)
- Quarterly credit and housing market survey
- Short Notice Inspection follow up (June 2010)

Additional information about the provider can be accessed on the TSA 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)

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 Providers. Our report makes clear to the provider's board the conclusions we have reached regarding the provider's governance and viability.

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 provider and other parties. The TSA accepts no liability for the information contained, and third parties must make their own investigations or enquiries.

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

Key to tsa regulatory judgement straplines and equivalent summary

Viability

The provider / group meets the requirements set out in the Governance and Financial Viability standard of the Regulatory Framework in relation to financial viability. meets expectations

The provider / group meets the requirements set out in the Governance and Financial Viability standard of the Regulatory Framework in relation to financial viability, however exposures exist which make it vulnerable to deterioration. meets expectations but with exposures

The provider's / group's financial viability is of concern. concern

The provider's / group's financial viability is of serious concern. serious concern

Governance

The governing body gives effective leadership and control, has a wide range of skills and experience and, supported by appropriate governance and executive arrangements, is improving its own performance and that of the organisation. effective leadership

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

The governing body needs to take further action to ensure capable leadership and control of the organisation. further action needed

The governing body does not demonstrate effective control of the organisation. Accordingly the provider / group is in breach of the Governance and Financial Viability standard of the Regulatory Framework. lacks effective control