



[www.cymru.gov.uk](http://www.cymru.gov.uk)

# Welsh Government Housing Policy – Regulation

Regulatory Opinion and Financial Viability Judgment

North Wales Housing - L33

December 2015

# Welsh Government Regulatory Assessment

The Welsh Ministers have powers under the Housing Act 1996 to regulate Registered Social Landlords (RSLs) in Wales in relation to the provision of housing and matters relating to governance and financial management. Part 1 of the 1996 Act is amended by Part 2 of the Housing (Wales) Measure 2011 ('The Measure') and provides the Welsh Ministers with enhanced regulatory and intervention powers concerning the provision of housing by RSLs and the enforcement action that may be taken against them.

The Welsh Ministers are publishing this Regulatory Assessment and Financial Viability Judgement report under section 33A of the Housing Act 1996.

The work undertaken follows the risk-based approach to regulation and seeks to identify strengths and areas for improvement in meeting the delivery outcomes (standards of performance) set out in *'The Regulatory Framework for Housing Associations Registered in Wales'* (*'The Regulatory Framework'*).

<http://gov.wales/topics/housing-and-regeneration/services-and-support/regulation/regulatory-framework/?lang=en>

## Basis of Regulatory Assessment

The report is designed to provide the RSL, its tenants, service users and other stakeholders with an understanding of how well it is performing, at a specific moment in time in relation to:

- Governance
- Financial management
- Landlord services

This report has been prepared for the RSL as a Regulatory Assessment and Financial Viability Judgement. It is based on information provided by the RSL and the Regulator's knowledge and must not be relied upon by any other party for any other purpose. The RSL remains responsible for the completeness and accuracy of information provided to the Regulator.

Housing Regulation Team  
Welsh Government Housing Division  
Sarn Mynach  
Llandudno Junction  
LL31 9RZ  
e-mail: [housingregulation@wales.gsi.gov.uk](mailto:housingregulation@wales.gsi.gov.uk)

## Context

The Group consists of North Wales Housing Association Limited (North Wales Housing), the parent company, with subsidiary member Domus Cambria Limited.

North Wales Housing is a Registered Social Landlord. It is registered under the Co-operative and Community Benefit Societies Act 2014 with charitable rules.

Domus Cambria Limited is a company limited by shares that provides residential property development services to the parent company.

The majority of the Group's activity arises from 2,134 general needs homes and 315 supported housing homes. The Group is active in the Conwy, Denbighshire, Gwynedd, Anglesey local authority areas.

North Wales Housing has evolved to become a more complex Group over recent years to include a commercial subsidiary Domus Cambria, a new social enterprise Rakes and Ladders, and a trustees of the Olinda Trust. As the Group has entered into new areas of business including the building of new extra care schemes and commercial contracting, the Group recognised the need for change and to strengthen their governance arrangements. In September 2013, an independent review of the governance was undertaken by Central Consultancy. The new governance model was implemented in July 2014.

## Governance, Finance and Service Delivery

*North Wales Housing has a capable Board but the operational culture is characterised by a laissez faire approach. Performance of the Group is below expectations in key areas. Financially North Wales Housing remains viable. Our judgement of the Association's financial viability is unchanged from that of 31st March 2015, which was "Pass – North Wales Housing has adequate resources to meet its current and forecasted future business and financial commitments". Service quality since the last published assessment also remains sound.*

The Board demonstrates it is capable of governing the Group effectively. There is an appropriate mix of skills around the Board table, including credible, independent and external expertise. The Board has the ability and confidence to challenge the executive team, but is not holding them adequately to account for the performance of the Association.

Further assurances are sought that the promised delivery of a new performance review framework for senior management, and for individual and collective Board members will be delivered in 2016/17. The published timescale for the completion of a revised appraisal framework Directors' and Assistant Directors' is 2020.

The Board's performance is limited by the over optimism of senior staff in interpreting the gravity of issues and advising the Board of an appropriate response. The quality of

decision making is inhibited by the information supplied to the Board, which often does not provide a clear picture of the current state of play.

The executive team is well established and appears comfortable. Lack of oversight and control by the senior executives has allowed a culture of poor internal control to flourish. Significant repairs overspends have gone unchecked, and unchallenged until Board members fortuitously identified the issue. There is a casual approach to meeting basic regulatory requirements on time, and the Group has failed to deliver key promises of new homes in partnership with Gwynedd Council due to a lackadaisical approach to managing Welsh Government funding requirements. There is also a pattern of slippage for Local Authorities' commitments.

The Group does not consider Value for Money in the Groups' activities. This is an area identified in the last regulatory assessment in December 2011. The Group show no real progress despite ongoing regulatory dialogue, and have yet to agree a Value for Money Strategy. The continuing absence of a value for money strategy is indicative of the lack of progress and priority given to this matter. It is therefore not surprising there is an inadequate approach to seeking value from the activities of the Group. North Wales Housing collaborates through the Undod consortium and other regional partnerships, which should deliver value for money on large scale contract procurement but this is insufficient on its own to ensure value for money is achieved.

The business plan of the Domus Cambria subsidiary has not been delivered. This owes much to unrealistic aspirations by the leadership and a lack of experience of managing development of 'for sale' homes. A lack of commercial experience on the Board and optimism has directly led to the underperformance of Domus Cambria subsidiary as well as the Olinda Trust.

Recent challenges in delivering its development programme have led to the decision to write off a significant debt owed by Olinda Trust. This loss does not materially affect the viability of the Association.

Selling homes has proved challenging, but has been managed within the Group's existing financial resources. Originally, homes were planned to be sold by May 2012. To date, 10 are provisionally under offer but remain unsold. The response from the Group to address the slow sales has drifted along with no real impetus. The mitigations put in place were reasonable but demonstrate the difficulties of the Board deciding to press ahead with this product in highly challenging market conditions.

Despite Domus Cambria's difficulties, the leadership and some elements of the Board continue to press to undertake more business of this nature – even though phase 1 has fallen short of expectations.

Managing a development programme is an area of concern. There is a lack of clear rationale for the decisions about which and how many schemes will get the go ahead. Nonetheless, the new homes built are good quality. The Group provides an excellent standard of accommodation and services to support more vulnerable groups of tenants and residents. Key stakeholders, including tenants, local authorities, and local Assembly Members, are impressed with North Wales Housing accommodation and their enthusiastic approach to supporting social housing in the area. Local Authority particularly endorse the success the Group has demonstrated in bringing empty homes back into use.

The Group cannot confirm when it will have brought all its homes up to the Welsh Housing Quality Standards. It did not meet the original 2012 target date set by Welsh Ministers. The Groups' internal audit recommends that North Wales Housing should consider "whether the assessment of achievement of WHQS is sufficiently robust when compared to the standard".

North Wales Housing has a good track record of providing homeless services and supported housing for a range of clients. Homes are generally ready to let quickly compared to other Housing Associations and significant improvements have been made in the time to let homes in the last 12 months. Complaints handling is improved. The number of complaints received has increased due to a simplified complaints process and better staff awareness. All complaints received have been resolved at Stage 1 (Informal Resolution).

Intended improvements to repairs and maintenance through bringing the service in-house have been disappointing. Non urgent repairs are now taking longer to complete and performance on emergency repairs has deteriorated.

The Association has prepared its 30 year financial forecast using a reasonable set of assumptions.

The 30 year financial forecast is suitably funded and shows the Association having sufficient cash and secured loan facilities to meet its funding requirements up to March 2017. An additional £5m facility currently being tendered will extend this to December 2018.

The 30 year financial forecast shows the Association continuing to meet its lenders' loan covenants until 2034. The Association's gearing is currently in the region of 50% and remains below the covenant limit of 60% until 2034, before peaking at 63% in 2042. Interest cover is at least 10% above the minimum level required of 110% throughout the forecast period.

The Association's 30 year forecast shows that it should continue to operate within the lenders' covenants until 2034 under reasonably foreseeable scenarios. The Association plans to further stress test its 30 year plan and develop possible mitigations to strengthen its resilience.

**Assurance from the regulator is required from North Wales Housing that;****➤ Governance**

- The Board understands its strategic role, but is clear when it is appropriate to dig deeper into operational matters (whilst not becoming overly operational)
- Executives have oversight and grip on the effectiveness of business activities
- Brings forward the timetable for appraising the senior staff's performance in an effective way to hold them to account
- Regulatory and other legal and statutory requirements are met
- The Board has assurance that the Group delivers value for money across its business activities
- Governance instruments are complied with, and areas for strengthening governance are clearly identified. (*against the back drop of the new CHC code and "comply or explain" approach*)
- Governance continues to be enhanced through improved diversity
- The organisational culture supports and delivers purpose and outcomes

**➤ Financial Viability**

- The performance of all parts of the Group, particularly Domus Cambria (and the Olinda Trust, if as anticipated it joins the Group), meets expectations and supports the viability and resilience of the organisation as a whole
- Appropriate compound stress testing of the risks inherent in the Business Plan is undertaken and discussed with the Board enabling them to discuss possible mitigations and recovery planning should the risks materialise in sufficient magnitude to put the organisation at risk of failure.
- The criteria for accepting schemes to build and acquire new homes is robust
- There is capacity to manage and finance its agreed development programme
- A robust approach to Asset and Infrastructure management is further developed

**Service Quality**

- The repairs and maintenance service is effective and efficient