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Welsh Government Housing Policy – Regulation

Regulatory Assessment Report

Tai Ceredigion – L151

July 2015

Welsh Government Regulatory Assessment

The Welsh Ministers have powers under the Housing Act 1996 to regulate Registered Social Landlords 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 Registered Social Landlords and the enforcement action that may be taken against them.

The Welsh Ministers are publishing this Regulatory Assessment 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 Registered Social Landlords, 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
- Services

This report is a Regulatory Assessment. It is based on information provided by the Registered Social Landlords and the Regulator's knowledge and must not be relied upon by any other party for any other purpose. The Registered Social Landlord is responsible for the completeness and accuracy of information provided to the Regulator.

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Introduction

Tai Ceredigion

Tai Ceredigion Cyf is registered under the Co-operative and Community Benefit Societies Act 2014 with charitable rules. It was created following a large scale voluntary transfer from Ceredigion County Council in November 2009.

The association owns and manages over 2,200 homes, consisting of around 1,850 general needs homes and 350 sheltered accommodation places.

Since the previous Regulatory Assessment in 2012, finance and service quality have remained sound, but governance has weakened.

Scope

Details of the risks identified for the social housing sector in Wales can be found at:

<http://gov.wales/topics/housing-and-regeneration/publications/sector-risks-facing-housing-associations/?lang=en>

An assessment of these risks identified the following as significant for Tai Ceredigion:

Significant risks which are part of this Regulatory Assessment:

- Governance
- Risk management
- Managing a Development programme
- Differential Inflation rates
- Service risks

Governance and Financial Management

Governance

Previously judged as sound, the effectiveness of Tai Ceredigion's governance has been impaired over the last year. However, the Welsh Ministers are assured that Tai Ceredigion's leadership is capable of addressing our concerns and governing appropriately. Factors providing this assurance include the early self-identification of governance weaknesses by the association, a willingness and appropriate response to address shortcomings and tangible evidence that governance performance has improved in a short space of time.

There have been a range of factors which have inhibited the effectiveness of the associations' governance. Key skills and competencies have proved difficult to replace following the departure of several Board members in the summer of 2014. The Board has not been demonstrating sufficient rigour in oversight and scrutiny. Board room tensions have been clearly evident and Board dynamic characterised by a lack of 'Team Tai

Ceredigion' feel. Board members demonstrate their first obligation is to the constituent body they represent (tenants, independents and ward constituent), rather than their duty to act in the best interest of Tai Ceredigion at all times.

The Board had become overly operational, entangled in staffing restructures and relationships. This has led to the Board's time being diverted onto matters of secondary concern, with little in terms of decisions and next steps. There has been a lack of confidence in standing behind and defending decisions and at times the governance of the association has become inward looking.

The current governance structure has worked well for the years immediately following the transfer and to oversee the achievement of the Welsh Housing Quality Standard but the association recognises its limitations as an organisation which wishes to expand and diversify its activities. It continues to deliver its plan to achieve a smaller, simpler more effective Board. It is progressing the remodelling of its composition satisfactorily, is starting to operate a more intelligent Board cycle to ensure Board time is maximised and supports quality decision making. Further work is also in progress to boost skills and capacity of Board members to meet their responsibilities and obligations. The association will need to demonstrate these actions have been effective.

Whilst there is an appropriate level of knowledge and skill across many areas of Board activity, of concern is the number of members who assess themselves as having limited or no skills across many of the functions and activities required from the Board to allow it to effectively carry out its duties and responsibilities. In response four new Board members have been co-opted and this has quickly and significantly enhanced the Board's capability. New members have improved the Board's ability to provide effective leadership to monitor, challenge and provide direction to the management. The co-optees have also increased the diversity of the Board – to 6 female Board members out of 17.

Tai Ceredigion is cost conscious and recognises there are regional opportunities to improve efficiencies and drive better value for money in the sector. Various alliances and collaborations and cost saving arrangements are in place and/or being developed with other Registered Social Landlords to protect and boost financial positions in an increasingly fiscally challenging environment.

Tai Ceredigion's culture is characterised by an honest view of its strengths and shortcomings as an organisation, even when this presents difficult truths. This approach yields increased stakeholder confidence as a co-regulatory approach to Regulation is embraced and lender confidence in the association is solid.

The information in the association's current position statement is a reasonable reflection of its effectiveness. Tai Ceredigion's approach to self evaluation clearly and succinctly links performance to the strategic aims of Tai Ceredigion. However, the association recognises it needs to add more rigour to the methodology underpinning it and show more explicitly how Tai Ceredigion is demonstrating the delivery outcomes set out in the Regulatory Framework 2011.

Tai Ceredigion upholds the highest standards of probity and demonstrates a sense of fair play, balancing the wishes of tenants and leaseholders, with its obligations of the public purse. Formal complaint handling is also an area of strength. The previous published regulatory assessment highlighted concerns about the handling of formal complaints and

judgement by the Ombudsman that had adverse impact on the association. Complaints handling process has been overhauled and there is strong evidence that the approach to complaints means tenants now have effective redress when things go wrong.

Future regulatory engagement will focus on:

- Monitor the effectiveness of the actions agreed by Board to strengthen governance as established by the 2014 Governance review. There will be a particular focus on Board behaviours and developing a “Team Tai Ceredigion” approach
- Review the association’s self evaluation approach to gain assurance the organisations view of its own effectiveness is robust and can be relied on for regulatory opinion

Financial Viability

Our judgement of the association’s financial viability remains unchanged from last year. As at 31st March 2015, the judgement is “Pass – Tai Ceredigion has adequate resources to meet its current and forecasted future business and financial commitments”.

Risk Management

The Board has an adequate grip on risk for the type and nature of the organisation, but in hindsight wishes it had had earlier understanding of emerging risks around development activity. As it expands and diversifies, its approach to risk management will require strengthening as current arrangements are unlikely to be sufficient. Tai Ceredigion already recognises this and has recently dissolved the existing Risk Assessment Panel sub Committee and now considers risk in a full Board environment. Further, the Board is working to give more regular attention and oversight to important compliance areas and strengthen internal audit to improve the overall integrated framework of business assurance.

Risk Management processes are in place but the weight attached to them by Board needs to be enhanced. There is scope for the Board to have a more detailed understanding of the obligations the association is taking on, to be able to direct the association and effectively mitigate the short and long term risks of new business ventures.

Financial sensitivity testing is undertaken and is appropriate. The Board need to exhibit a stronger understanding of the association’s dependencies and contingencies. Additional compound risk modelling is required, to provide assurance that credible plans are in place should the association find itself in jeopardy.

Like most housing associations, Tai Ceredigion has some risk exposure to differential inflation rates, but current generation of surpluses insulates the association at the moment. To mitigate future exposure, more assurance is required that the association’s new business plan has been subject to demanding scenario modelling. The Board need to demonstrate it is leading the modelling, rather than being passively presented with scenarios for consideration.

The association has a prudent risk appetite. Tai Ceredigion is particularly effective at attracting significant additional funding from external public and private organisations to deliver its strategic aims. This effectively mitigates risks to its financial position, as innovative ventures are frequently financed (at least initially) from external monies.

Evidence confirms the Board strikes a balance between being cautious in its approach, and embracing a willingness to be innovative. The leadership seeks out and reviews new opportunities to improve the business which has led to improvements to service users. Examples include the establishment of “Medra” to provide repairs to residents, sharing repairs services in Ceredigion and helping other regional housing associations achieve efficiencies by sharing their direct labour repairs service.

Future regulatory engagement will focus on:

- Monitor the effectiveness of business assurance mechanisms as the association expands and diversifies
- Analyse the impact of differential inflation rates on the new business plan and gain assurance that modelling is both Board led and rigorous
- Assess how effective the Board is at understanding its obligations when entering new business activity or ventures
- Review the robustness of the preparedness planning to gain assurance it is credible

Managing a development programme

Building new homes is an increasing area of activity for Tai Ceredigion. Following delivery of Welsh Housing Quality Standard, the association has turned the focus of its business to increasing the supply of social housing in the locality. The association has curtailed some of its development ambition in order to focus on strengthening its development capability.

The association quickly realised more current building and development expertise was required on the Board in order to deliver successfully. This is now in place and the Board’s oversight and challenge has been significantly enhanced. With its culture of honest appraisal, the association became conscious it made some mistakes which have caused difficulties in getting new developments off the ground. The leadership has learnt from the experience, and accordingly has agreed a strategic approach that focuses on doing fewer, appropriate, high quality schemes. Closer links have also been forged between financial and development operations. Should issues arise in future, these steps intend to provide a more holistic position of development activity and identify emerging risks at an earlier stage to allow appropriate mitigations to be enacted. The effectiveness of these actions will be monitored.

Future regulatory engagement will focus on:

- Gain continued assurance that the Board’s development ambitions are relative to the human and financial capacity of the association
- Ensure the Board continues to identify and manage risks effectively
- Monitor the closer union between financial and development operations to ensure risks are identified earlier and mitigated effectively

Services

The services provided are of high quality. Satisfaction levels with key services are good. Services are focused on the priorities of tenants and other service users, and the association can demonstrate good results delivering their strategic aims of tackling fuel poverty, paying a Living Wage, tackling poverty in rural communities and generating jobs and work opportunities for local communities. The association can demonstrate a good track record in supporting the Local Authority in tackling homelessness.

Welsh Housing Quality Standard was delivered on time and under budget. There has been a 21% boost in satisfaction levels with homes as a result of this investment. However, there is concern amongst some tenants about the ability of Tai Ceredigion to adequately address the needs of tenants with “Off-mains” homes which are not connected to the national gas network. Tenants find heating systems are inadequate and/or very expensive to run. The Association has invested over £2 million in alternative heating and technically the requirements of Welsh Housing Quality Standard have been met in these instances. There is disappointment from tenants about a lack of empathy shown with regard to the impact non replacement has had on these households.

Tenants are effectively engaged in shaping services and have excellent oversight of service quality which they regard as excellent. The Tenant Monitoring Group is independent and challenging, has high status as a key partner for the association and describes the Executive team as “highly tenant oriented”. Both Tai Ceredigion and tenants involved in formal structures are frustrated by lack of engagement by the majority of tenants and residents, nonetheless 900 tenants out of 2,200 households voted in the last tenant elections.

With Universal Credit due to be implemented in the area in November 2015, assurance is required that Tai Ceredigion will be able to continue to successfully manage the impact of Welfare Reform on tenants and the business. The association has mitigated the impact of Welfare Reforms effectively to date. Investing resources has yielded a significant boost to household incomes, and rent arrears are at historic lows for the organisation. The internal Welfare Reform Group charged with leading risk mitigation in this area needs to be more closely aligned with financial operations in order to be effective.

Future regulatory engagement will focus on:

- Gain assurance that households in off gas homes are able to achieve parity in living standards and the quality of homes as on-mains households.
- Review impact of the introduction of Universal Credit in November 2015 to ensure Welfare Reform risks are mitigated effectively
- Monitor the closer alignment between Welfare Reform Group and financial operations and assess how effectively it mitigates further roll out of Welfare Reforms.