

## Caledonia Housing Association Ltd

### 31 March 2016

This Regulation Plan sets out the engagement we will have with Caledonia Housing Association Ltd (Caledonia) during the financial year 2016/17. Our regulatory framework explains more about our assessments and the purpose of this Regulation Plan.

### Regulatory profile

Caledonia was formed in 2011 when Servite Housing Association joined Perthshire Housing Association and the merged organisation changed its name to Caledonia. Caledonia now owns and manages 3,776 houses across five local authority areas in the North and East of Scotland. It also provides factoring services to 161 owners and has 22 commercial units. It is a registered charity and employs around 155 people.

Caledonia's turnover at the end of March 2015 was just over £17.7 million. It has two registered subsidiaries Cordale Housing Association (Cordale), which joined the Caledonia Group in April 2014 and Bellsmyre Housing Association which will join the Caledonia Group in April 2016. It also has two dormant unregistered subsidiaries Servite Solutions Ltd and Caledonia Ventures Ltd.

### Systemic importance

We refer to a small number of RSLs as 'systemically important' because of their stock size, turnover or level of debt or because of their significance within their area of operation. We need to maintain a comprehensive understanding of how their business models operate and the risks they face, so we seek some additional assurance through our regulation plans.

Given the combination of Caledonia's size, turnover and level of debt, we consider it to be systemically important. We need to understand how it plans to manage the key risks it faces and the impact these may have.

Caledonia has grown through its development activity and by expanding its group structure. It is one of the larger developers of new affordable housing in Scotland and continues to receive significant amounts of public funding to achieve this. Caledonia has plans for a considerable programme of further new development including housing for social rent and low cost home ownership. As part of our annual risk assessment we have also considered Cordale and Bellsmyre the other registered social landlords in the Caledonia Group.

During 2015/16 we reviewed Caledonia's financial returns to gain assurance about its financial health and we will continue to engage with it to understand how it plans to manage the key risks it faces.

### Cordale

Cordale was registered in 1992. It owns and manages 537 houses, provides factoring services to 22 owners and also has 6 six commercial properties in West Dunbartonshire. It is a registered charity and employs around 12 people. Its turnover for the year ended March 2015 was £2.2 million. It has one non-registered subsidiary Cordale Property Services and it is reviewing the role of Cordale Property Services. As part of our annual risk assessment we have decided to have low engagement with Cordale.

## **Bellsmyre**

Bellsmyre registered as a social landlord in 1991. It has charitable status and employs around 13 people. It owns 594 homes in Bellsmyre, Dumbarton and provides factoring services to a further 483 and it owns 2 commercial properties. Its turnover for the year ended March 2015 was £2.35 million.

We engaged with Bellsmyre during 2015/16 about governance issues. Bellsmyre developed an improvement plan to address the governance issues it faced and has made progress against its improvement plan. With support from Caledonia, Bellsmyre has plans to continue to work to strengthen its governance.

To assess the risk to social landlord services SHR has reviewed and compared the performance of all Scottish social landlords to identify the weakest performing landlords. We found that Bellsmyre is in the bottom quartile for all social landlords in relation to three satisfaction indicators - overall satisfaction, the percentage of tenants satisfied with the quality of their home and the percentage of tenants who feel their rent represents value for money. It is also in the bottom quartile for re-let times and rent lost due to empty properties and for tenancy sustainment.

We have assessed Bellsmyre as requiring medium engagement. We have not published a separate regulation plan for Bellsmyre and our engagement with it will be included as part of our regulatory engagement with Caledonia.

### **Our engagement with Caledonia Housing Association Ltd – Medium**

Due to Caledonia's size, turnover and debt, we consider it to be of systemic importance and as a result we will have medium engagement with it in 2016/17. We will have medium engagement with Bellsmyre as it continues to address governance issues and to get further assurance about its service quality.

1. As it is of systemic importance Caledonia will send us the minutes of its governing body and audit committee meetings each quarter.
2. Caledonia will send us by 30 June 2016:
  - its approved business plans for it and its subsidiaries including commentary on the results of its sensitivity analysis and risk mitigation strategies;
  - 30 year financial projections for it and its subsidiaries consisting of a statement of comprehensive income, statement of financial position and statement of cash flow, including a comparison of projected loan covenants against covenant requirements;
  - its sensitivity analysis for it and its subsidiaries which considers the keys risks including covenant compliance;
  - its reports to the Boards of Caledonia and its subsidiaries in respect of the 30 year projections and sensitivity analysis;
  - a report that outlines the plans for the future direction of Cordale Property Services Ltd; and
  - evidence of how it demonstrates affordability for its tenants.
3. Caledonia will send us an update on its development projects, including funding plans, timescales, completions and any material delay or changes, by 31 October 2016.
4. We will:
  - review the minutes of the governing body and audit committee meetings;

- provide feedback on the business plans and projections for Caledonia and its subsidiaries in quarter two of 2016/17;
  - meet senior staff and the Board in quarter two of 2016/17 to discuss its projections, progress against the business plan and any risks to the organisation; and
  - discuss Bellsmyre's service quality performance with it when we meet and will monitor Bellsmyre's improvement plans during the year.
5. We will meet with staff quarterly to monitor Bellsmyre's improvement actions to strengthen its governance and its integration into Caledonia.
6. Caledonia, Cordale and Bellsmyre should alert us to notifiable events and seek our consent as appropriate. They should provide us with the annual regulatory returns we review for all RSLs:
- audited financial statements and external auditor's management letter;
  - loan portfolio return;
  - five year financial projections; and
  - Annual Return on the Charter.

This plan will be kept under review and may be changed to reflect particular or new events. The engagement strategy set out in this plan does not restrict us from using any other form of regulatory engagement to seek additional assurance should the need arise. Our regulatory framework and other relevant statistical and performance information can be found on our website at [www.scottishhousingregulator.gov.uk](http://www.scottishhousingregulator.gov.uk).

Our lead officer for Caledonia Housing Association Ltd is:

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We have decided what type of engagement we need to have with this organisation based on information it provided to us. We rely on the information given to us to be accurate and complete, but we do not accept liability if it is not. And we do not accept liability for actions arising from a third party's use of the information or views contained in the Regulation Plan.