

## **Caledonia Housing Association Ltd**

**31 March 2017**

This Regulation Plan sets out the engagement we will have with Caledonia Housing Association Ltd (Caledonia) during the financial year 2017/18. 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 3,450 houses across five local authority areas in the North and East of Scotland. It also provides factoring services to 150 owners. It is a registered charity and employs 164 people. Caledonia's debt per unit is £15,104.

Caledonia is the parent of two charitable Registered Social Landlords (RSLs) Bellsmyre Housing Association (Bellsmyre) with a debt per unit of £3,873 and Cordale Housing Association (Cordale) with a debt per unit of £16,399. It also has two dormant unregistered subsidiaries Servite Solutions Ltd and Caledonia Ventures Ltd.

As at 31 March 2016 the Caledonia group turnover was just over £25 million.

### **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, how they manage the risks they face and the impact these risks may have. 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.

### **Engagement**

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 receives significant public subsidy to help achieve this. Caledonia plans to continue to grow through a considerable programme of new homes for social rent, mid market rent and low cost home ownership.

During 2016/17 we reviewed Caledonia's 30 year financial projections and returns to gain assurance about its financial health. We engaged with the Chair and the executive management team to discuss the risks and challenges Caledonia faces. We will continue to engage with it to understand how it plans to manage the key risks it faces and about its plans to fund its increased development programme. Caledonia gave us information about how it demonstrates affordability for its tenants to give us assurance about its approach to this. We discussed Caledonia's approach to value for money when we met and it advised it will be developing this further in 2017/18.

As part of our annual risk assessment we have also considered Cordale and Bellsmyre the other registered social landlords in the Caledonia Group.

## **Cordale**

Cordale was registered in 1992. It owns and manages 537 houses and provides factoring services to 22 owners in West Dunbartonshire. It is a registered charity and employs 12 people. Its turnover for the year ended March 2016 was £3.42 million. 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. Its turnover for the year ended March 2016 was £2.68 million.

Bellsmyre has completed a 45% stock condition survey in 2016 and has plans in place to survey all stock by March 2018. It is now using this improved information to establish an effective database to inform future investment decisions. Bellsmyre currently has 146 properties that do not meet the Scottish Housing Quality Standard (SHQS) but it has a contract in place to ensure these properties meet SHQS by June 2017.

We have been engaging with Bellsmyre about its service quality and found it is making steady progress in some areas. To assess the risk to social landlord services we have 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 for four satisfaction indicators, arrears management and for tenancy sustainment. We will review Bellsmyre's performance when we receive its ARC return in June 2017.

As part our annual risk assessment we have decided to have medium engagement with Bellsmyre. We have not published a separate regulation plan for Bellsmyre and our engagement with it is included in this plan.

### **Our engagement with Caledonia Housing Association Ltd in 2017/18 – Medium**

We will engage with Caledonia because it is systemically important and about its development. We will also have medium engagement with Bellsmyre to get further assurance about its progress towards achieving SHQS for all stock.

1. As it is of systemic importance Caledonia will send us the minutes of its governing body and audit committee meetings as they become available.
2. Caledonia will send us by 30 June 2017:
  - its latest business plan;
  - 30 year financial projections consisting of a statement of comprehensive income, statement of financial position and statement of cash flows complete with details of assumptions and explanatory narrative;
  - a comparison of projected loan covenants against covenant requirements;
  - financial sensitivity analysis which compares the resulting covenant calculations with the current covenant requirements, together with risk mitigation strategies; and
  - report to the Board in respect of the approved 30 year projections, sensitivity analysis and covenant compliance.
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 2017.
4. We will:
  - review the minutes of the governing body and audit committee meetings;

- provide feedback on the business plans and projections for Caledonia in quarter two of 2017/18;
  - meet senior staff in quarter two of 2017/18 to discuss its projections, progress against the business plan and any risks to the organisation;
  - meet the board in April 2017;
  - review Bellsmyre's service quality when we receive the Annual Return on the Charter in June 2017; and
  - discuss Bellsmyre's stock quality and asset management plans when we meet with Caledonia.
5. 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;
  - Annual Return on the Charter; and
  - the return on the Energy Efficiency Standard for Social Housing.

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.