

Dumfries and Galloway Housing Partnership

10 October 2014

This Regulation Plan sets out the engagement we will have with Dumfries and Galloway Housing Partnership (DGHP) during the financial year 2014/2015. Our regulatory framework explains more about our assessments and the purpose of this Regulation Plan.

Regulatory profile

DGHP was registered in April 2003. It is the second largest Registered Social Landlord (RSL) in Scotland with around 10,370 tenants and a factoring service for 636 owners. It employs 217 full time equivalent staff and has two unregistered subsidiaries Novantia Ltd and DGHP3 which carry out the group's commercial activities and deliver development services respectively. Turnover in the year ended 31 March 2014 was just over £36.9 million.

Given DGHP's size, turnover, debt and the scale of its investment activity we consider it to be of systemic importance.

DGHP has received significant amounts of public subsidy and continues to be one of the larger developers in Scotland. It has a development programme in place for the next two years and will receive public subsidy to deliver homes for social rent, mid-market rent and shared equity.

During 2013/14 we received the assurance we needed on the Board's ability to provide appropriate challenge. Its work is supported by a programme of independent verification of key activities and outcomes and its governance is maintained by appraisal, skills audit and training. The Board is reviewing its structure over the coming year to ensure continued effectiveness and efficiency.

During 2013/14 we also reviewed DGHP's business plan, including 30 year financial projections, which gave us assurance about its strategic management and controls. DGHP recognises the importance of maintaining strong control of its costs particularly as it approaches peak debt; reviews its options for delivery of further development projects and manages the implications of welfare reform.

DGHP closed access to the local government pension scheme several years ago and had plans in place in readiness for its auto enrolment staging date of April 2014.

We reviewed progress with SHQS when we received the Annual Return on the Charter in May 2014 and DGHP anticipates 5% exemptions at April 2015. It continues to work towards a 100% stock condition database and has carried out substantial investment work over the last year.

In August 2014 we asked DGHP to commission an independent expert report into the award of a contract it had made to a construction company that subsequently went into administration. The investigation concluded that the information considered by DGHP to assess the financial viability of the successful bidder complied with its own policy and the requirements of the Scottish Government and that the choice of contractor was the logical outcome from the process undertaken.

We reviewed this report, the original scoring sheets from the individuals on the selection panel and worked with Audit Scotland who asked Dumfries and Galloway Council's external auditor to review the council's role in the selection of the contractor. We concluded that there was no evidence to suggest that any further regulatory engagement is required at this time in relation to this.

Our engagement with DGHP – Medium

We consider DGHP to be of systemic importance because of its size, turnover, debt and the scale of its investment activities. So we will have medium engagement with it in 2014/15.

1. DGHP sent us in May 2014:
 - its approved business plan including commentary on the results of sensitivity tests and risk mitigation strategies;
 - 30 year projections consisting of income and expenditure statement, balance sheet and cash flow, covenant requirements including calculation of loan covenants and the related Board report;
 - sensitivity analysis which looks at the key risks such as arrears levels and covenant compliance. We would also expect this to include analysis of a range of options for rent increases which demonstrate continuing affordability for tenants.
 - and quarterly thereafter, management accounts including any related Board papers;
2. DGHP will also send us:
 - copies of its governing body and audit committee minutes; and
 - any updates relating to activity in its subsidiaries which may present a material risk to the parent.
3. We will:
 - review minutes of the governing body and audit committee meetings;
 - meet senior staff and the Board in quarter three to discuss progress against the business plan and any risks to the organisation; and
 - review progress with SHQS in January.
4. DGHP should alert us to notifiable events and seek our consent as appropriate. It should provide us with the annual regulatory returns we review for all RSLs:
 - audited annual accounts and external auditor's management letter;
 - loan portfolio return;
 - five year financial projections (including all SHQS costs); 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.

Our lead officer for DGHP 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.