

Dumfries and Galloway Housing Partnership

31 March 2015

This Regulation Plan sets out the engagement we will have with Dumfries and Galloway Housing Partnership (DGHP) during the financial year 2015/16. 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 10,337 tenants and a factoring service for 635 owners. It employs around 215 people and has two unregistered subsidiaries, Novantia Ltd and DGHP3 Ltd which carry out the group's commercial activities and deliver development services respectively. Turnover in the year ended 31 March 2014 was just under £37 million.

Systemic importance

Our regulatory framework highlights that a small number of RSLs have a profile in terms of stock size, turnover, level of debt or geographic importance that means we need to ensure we have developed a comprehensive understanding of their business model and how it is being operated. We refer to these organisations as systemically important and seek some additional assurances through our published regulation plans.

During 2014/15 we reviewed DGHP's business plan and 30 year financial projections for assurance about its strategic management and controls. DGHP recognises the importance of maintaining strong control of its costs particularly as it approaches peak debt and reviews its options for delivery of further development projects.

In August 2014 we asked DGHP to commission an independent expert report into the award of a contract to a construction company that subsequently went into administration. The investigation concluded 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 was required.

DGHP commissioned two independent structural surveys which looked at the physical condition of the properties and the level of repairs post completion in comparison to other properties. Both surveys concluded that there were no issues with build quality. An independent market research company was also commissioned to check tenant satisfaction with their new homes and found that 99.2% were very satisfied or satisfied when they moved in and 93% remain satisfied.

DGHP has brought its properties up to the Scottish Housing Quality Standard (SHQS) and also reported 296 exemptions in the energy efficiency category. These properties are not on the gas grid but have full central heating. DGHP also has 152 blocks of flats where there is mixed ownership and owners have not agreed to door entry systems being installed. DGHP is pursuing other sources of funding to help owners participate but this is unlikely to happen

during 2015/16. A further 157 homes have had problems with cavity wall insulation and DGHP is examining potential solutions.

DGHP is one of the largest developers of new affordable housing in Scotland and continues to receive significant amounts of public funding to help achieve this. DGHP has plans for a considerable programme of new homes for social rent, mid-market rent and shared equity over the next two years.

Our engagement with DGHP – Medium

Given DGHP's size, turnover and level of debt, we consider it to be systemically important and need to understand how it plans to manage the key risks facing it and the impact these will have. Because of this and the scale of its investment activities we will have medium engagement with it in 2015/16.

1. By 31 July 2015, DGHP will send us its:
 - approved business plan for both it and its subsidiaries including commentary on results of sensitivity tests and risk mitigation strategies;
 - 30 year financial projections for both it and its subsidiaries consisting of income and expenditure statement, balance sheet and cash flow, including calculation of loan covenants and covenant requirements;
 - sensitivity analysis which looks at 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 and inflation rates which demonstrate continuing affordability for tenants; and
 - reports to the Board for it and its subsidiaries in respect of the 30 year projections and sensitivity analysis.
2. DGHP will also send us:
 - by the end of September, an update on its plans for development, including funding plans;
 - quarterly copies of its Board 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:
 - meet senior staff and the Board in quarter two to provide feedback on the business plan and financial projections and to discuss the risks and challenges facing the partnership; and
 - review minutes of the governing body and audit committee meetings.
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.