

Hillcrest Housing Association Ltd

31 March 2016

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

Regulatory profile

Hillcrest became a registered social landlord in 1976. It is a registered charity based in Dundee but operates in Tayside, Fife, Perthshire and Edinburgh, providing mainstream and specialist accommodation within a broad range of housing. It owns and manages around 5,557 social rented homes, 574 mid market rent and 304 shared ownership properties. It also provides a factoring service to 494 owners. Its turnover for the year ended 31 March 2015 was £26.9 million.

Hillcrest is the parent company of the Hillcrest Group of companies, which collectively provide a range of housing, care and wider role services. The group employs approximately (945) staff at 31 March 2015. The majority of staff are employed by Hillcrest (186) and Gowrie Care (620).

The group has five wholly owned unregistered trading subsidiaries:

- Gowrie Care Ltd (GC), which provides care and support services to a wide range of client groups;
- Hillcrest Enterprises Ltd (HE), which manages a small portfolio of properties for people with support needs, undertakes some open market renting, sells services to other bodies, hosts the Right Recruitment activity and acts as an incubator for new business enterprises for the group;
- Hillcrest Maintenance Service (HMS) which undertakes a proportion of the maintenance work for the group;
- Northern Housing Company Limited (NHCL), which has a portfolio of 429 homes let on a mid-market rent basis; and
- CraigOwl Communities (CO), which is a training and employment agency helping people overcome barriers to employment.

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 Hillcrest's size, turnover and significant development programme, 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.

Hillcrest is one of the largest developers of new affordable housing in Scotland and continues to receive significant public subsidy to help achieve this. Hillcrest plans to continue to grow through a considerable programme of new homes for social rent and mid-market rent.

During 2015/16 we reviewed Hillcrest's financial returns including updates on its free standing derivatives (FSDs) to gain assurance on its financial health. It is focussing on value for money throughout the Group and has commissioned external consultants to look at this. We will look for updates and outputs from this work during the year.

We will continue to engage with Hillcrest during the year as it progresses its large development programme and manages its debt levels and subsidiary activities.

Hillcrest is establishing a customer contact centre, which is due to launch on the 1st May 2016.

Hillcrest has carried out an asset management review and will produce an updated strategy in the first half of 2016.

Our engagement with Hillcrest Housing Association Ltd – Medium

Given Hillcrest's size, turnover and development activity we consider it to be of systemic importance. In light of this and its subsidiary activities we will continue to have medium engagement in 2016/17.

1. Hillcrest 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 NHCL 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;
 - 3 year financial projections for CO, HMS, HE and GC consisting of a statement of comprehensive income, statement of financial position and statement of cash flow;
 - sensitivity analysis for it and its subsidiaries which considers the keys risks including covenant compliance;
 - its reports to the Boards of Hillcrest and its subsidiaries in respect of the 30 year and 3 year projections and sensitivity analysis; and
 - evidence of how it demonstrates affordability for its tenants.
2. Hillcrest will also send us:
 - quarterly from April 2016 its treasury management Board reports which monitor progress with the FSDs;
 - an update on the performance of the new contact centre and how this has integrated across the Group by the end of December 2016;
 - an update on its development projects, including funding plans; timescales, completions and any material delay or changes, by 31 October 2016;
 - a copy of the value for money report and the action plan resulting from any recommendations made;
 - quarterly from April 2016, its governing body and audit committee minutes; and
 - a copy of the updated asset management strategy by end of July 2016.
3. We will:
 - meet the senior staff and the Board during quarter two to provide feedback on the parent and subsidiaries business plans and financial information;

- discuss Hillcrest's overall financial health in light of its development, investment and subsidiary activities and the impact of these on Hillcrest's finances;
 - provide feedback on the asset management strategy, business planning and financial information we receive; and
 - review the minutes of the governing body and audit committee meetings and liaise with Hillcrest as necessary.
4. Hillcrest 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 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.

Our lead officer for Hillcrest 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.