

## Hillcrest Housing Association Ltd

### 29 March 2018

This Regulation Plan sets out the engagement we will have with Hillcrest Housing Association Ltd (Hillcrest) during the financial year 2018/19. Our regulatory framework explains more about our assessments and the purpose of this Regulation Plan.

### Regulatory profile

Hillcrest was registered as a social landlord in 1976 and has charitable status. Hillcrest currently owns and manages 6,640 homes, including 288 shared ownership, 208 supported housing and 145 mid-market rent units across five local authority areas. Hillcrest also provides factoring services to 481 owners.

As at 31 March 2017 Hillcrest's turnover for the year was £32.2m million and its debt per unit was £18,387.

Hillcrest is the parent company of the Hillcrest Group, which collectively provide a range of housing, care and wider role services. The group employs 1,026 people at 31 March 2017. The majority of staff are employed by Hillcrest (213) and Gowrie Care (642).

The group has five wholly or partly 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 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
- Leith Links NHT 2011 LLP is 50% owned by Hillcrest and provides mid-market rent properties.

### 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 how they manage the risks they face and the impact these may have. So we seek some additional assurance through our regulation plans. Given a combination of Hillcrest's size, turnover and level of debt, we consider it to be systemically important.

### Engagement

During 2017/18 we reviewed the business plan and financial projections for Hillcrest and a number of its subsidiaries. We met with the Chief Executive and the Chair to provide feedback on this information and also discuss the risks and challenges facing Hillcrest. We

discussed with Hillcrest its approach to how it demonstrates affordability to its tenants and Hillcrest will provide us with further information on this during 2018/19.

During 2017/18 Hillcrest completed some changes within its group structure with CraigOwl Communities being wound up and some of the services it provides transferred within the existing Group structure. Also its partnership with Cair Scotland, a Dundee based support organisation, was formalised when it became a subsidiary of Gowrie Care Ltd. Hillcrest continues to review its strategy in relation to its group structure and will keep us updated if any further changes are proposed.

Hillcrest is one of the largest developers of new affordable housing in Scotland and receives significant public subsidy to help achieve this. Hillcrest plans to continue to grow through a considerable programme of new homes for social and mid-market rent. As a result, the number of affordable homes provided by Hillcrest will increase by around a third over the next five years.

Hillcrest continues to explore other opportunities for growth which has included new geographic areas of operation and further tenure diversification including the provision of homes for private rent.

We will continue to engage with Hillcrest as it considers its future strategy to support its on-going significant development programme.

### **Our engagement with Hillcrest Housing Association Ltd in 2018/19 – Medium**

We will engage with Hillcrest because it is systemically important and has a significant and diverse development programme.

1. Hillcrest will send us by 30 June 2018:
  - its approved business plan;
  - 30 year financial projections consisting of statement of comprehensive income, statement of financial position and statement of cash flow complete with assumptions and explanatory narrative;
  - financial sensitivity analysis which considers the key risks, the mitigation strategies for these risks and a comparison of the resulting covenant calculations with the actual current covenant requirements;
  - report to the Board in respect of the approved 30 year projections, sensitivity analysis and covenant compliance; and
  - evidence of how it demonstrates affordability for its tenants.
2. In addition, Hillcrest will send us by 30th June 2018 the latest available versions of the business plans and financial projections in relation to Gowrie Care Ltd, Northern Housing Company Ltd and Hillcrest Maintenance Services Ltd.
3. Hillcrest will send us copies of its Board and audit committee minutes as they become available.
4. Hillcrest will send us an update on its development programme by 31 October 2018. This will include details of the units and tenure types to be delivered, timescales, completions and any material delays or changes to the programme. This will include a copy of the most recent development update to the Board.
5. We will:
  - review the minutes of the Board and audit committee meetings;
  - review Hillcrest's development update in quarter three of 2018/19;

- meet with Hillcrest's senior staff to discuss the business plan, financial projections and other relevant information provided; and
  - meet with Hillcrest's governing body to discuss our engagement with them.
6. 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;
  - 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 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.