

Muirhouse Housing Association Ltd

31 March 2015

This Regulation Plan sets out the engagement we will have with Muirhouse Housing Association Ltd (Muirhouse) during the financial year 2015/16. Our regulatory framework explains more about our assessments and the purpose of this Regulation Plan.

Regulatory profile

Muirhouse was registered as a social landlord in 1992. It owns and manages 460 houses in north west Edinburgh. It has charitable status and employs around 8 people. It has one subsidiary Muirhouse Homes Ltd that it established to manage its mid-market rent properties. Its turnover for the year ended 31 March 2014 was just over £1.8 million.

During 2014, we identified a serious and urgent risk to the financial health of Muirhouse and serious weaknesses in its governance and financial management. In December 2014, to protect the interests of tenants and investors, we used our statutory powers to appoint a manager to Muirhouse under section 58 of the Housing (Scotland) Act 2010. We also used our powers under section 65 of the Housing (Scotland) Act 2010 to appoint three additional officers to Muirhouse's governing body.

We needed to make these appointments to:

- address the serious risks to Muirhouse's governance and financial management arising from the issues in the independent financial assessment which Muirhouse commissioned;
- assist the governing body to ensure that these issues are resolved with an urgent resolution of problems it faced with its development programme;
- to consider whether the current governance and financial management processes and procedures are fit for purpose; and
- assist and support the governing body to ensure that Muirhouse's affairs are managed to an appropriate standard.

We have asked the manager to:

- develop and implement an action plan which addresses the serious risks to Muirhouse's governance and financial management position;
- put in place the necessary policies, internal controls and safeguards to ensure the effective financial management of Muirhouse;
- ensure Muirhouse has appropriate financial expertise; and
- carry out a strategic review and implement any necessary improvements to ensure that Muirhouse meets our Regulatory Standards of Governance and Financial Management.

We also identified serious weaknesses in its governance and financial management which related to the management of its subsidiary and its ability to achieve the Scottish Housing Quality Standard (SHQS).

Muirhouse is now putting in place arrangements to address the issues with the management of its subsidiary.

During 2014/15 Muirhouse told us a significant proportion of its properties would not meet the SHQS by 31 March 2015. Following a recent stock condition survey Muirhouse has confirmed no properties will fail SHQS. It is a concern to us that until February 2015 Muirhouse did not know whether its properties would meet SHQS given the deadline of 31 March 2015. The survey work also established costs for future maintenance and we need to see revised financial projections incorporating the cost of this work.

Due to the serious issues we identified about Muirhouse's governance, business planning, financial management and its arrangements for its subsidiary we need additional assurance about the governance and financial health of Muirhouse.

Our engagement with Muirhouse – High

We will have high engagement with Muirhouse in light of the serious governance and financial issues it is dealing with.

1. We will liaise on a monthly basis with the manager to monitor Muirhouse's progress in improving its governance and financial management and the completion of the strategic review together with the implementation of any necessary changes.
2. The appointments of the manager and three additional officers on the governing body are for a period of six months. At this time we will review Muirhouse's progress with making the improvements necessary to address the issues identified and may extend the appointment if we consider this necessary.
3. We expect Muirhouse to continue to engage with us to assure us it is delivering the necessary improvements to ensure that it meets our Regulatory Standards of Governance and Financial Management. We may review our engagement activity depending on the outcome.
4. By 31 May 2015 Muirhouse will send us its:
 - approved Business Plan for both it and its subsidiary including commentary on results of sensitivity tests and risk mitigation strategies;
 - 30 year financial projections for both it and its subsidiary 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 subsidiary in respect of the 30 year projections and sensitivity analysis.

5. Muirhouse 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; 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 Muirhouse 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.