

Sanctuary Scotland Housing Association Ltd

31 March 2017

This Regulation Plan sets out the engagement we will have with Sanctuary Scotland Housing Association Ltd (Sanctuary Scotland) during the financial year 2017/18. Our regulatory framework explains more about our assessments and the purpose of this Regulation Plan.

Regulatory profile

Sanctuary Scotland was registered as social landlord in 1998. It is a charitable subsidiary of the English registered social landlord, Sanctuary Housing Association.

In 2015 Sanctuary Scotland submitted a business case for the merger of the three Scottish subsidiaries of Sanctuary Housing Association. In 2016 the tenants and members of Cumbernauld Housing Partnership (CHP) and Tenants First Housing Co-operative (TFHC) agreed to become part of a merged Sanctuary Scotland and on 26 August 2016 CHP and TFHC transferred engagements to Sanctuary Scotland.

Sanctuary Scotland now operates across 11 local authority areas with most of its homes in North Lanarkshire and Glasgow. It owns and manages around 6,500 homes and is the third largest Registered Social Landlord (RSL) in Scotland. 89 staff work for Sanctuary Scotland and it provides a factoring service to over 1,700 owners. As at 31 March 2016, prior to the merger, Sanctuary Scotland's turnover was just over £15.9 million and its debt per unit was £43,884.

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

Engagement

Sanctuary Scotland has grown through its development activity and by expanding its group structure. It is one of the largest developers of new affordable housing in Scotland and receives significant public subsidy to help achieve this. Sanctuary Scotland plans to continue to grow through a considerable programme of new homes for social rent, mid market rent and shared equity housing. Sanctuary Scotland will deliver mid-market rent homes for the first time as part of its development programme. Sanctuary has given us assurance about its preparations for the introduction of this new tenure including the establishment of a new subsidiary to manage the mid-market rent homes.

During 2016/17 we reviewed Sanctuary Scotland's 30 year financial projections and returns to gain assurance about its financial health. We engaged with the board and senior staff to discuss the risks and challenges Sanctuary Scotland faces. We gained assurance on its financial capacity to deliver its organisational objectives. We will continue to engage with

Sanctuary Scotland to understand how it plans to manage the key risks it faces, including the scale of its development programme and its approach to asset management.

To assess the risk to social landlord services we have reviewed and compared the 2015/16 performance of all Scottish social landlords to identify the weakest performing landlords. We found that Tenants First's return showed it was in the bottom quartile for all social landlords in relation to overall tenant satisfaction, tenants who feel the landlord is good at keeping them informed, tenants happy with the standard of home when moving in, tenants happy with the quality of home, time to complete emergency repairs, satisfaction with the repairs service and anti-social behaviour cases resolved within target timescales.

In May 2016, CHP's return on the Energy Efficiency Standard for Social Housing (ESSH) highlighted less than 32% of CHP's homes met ESSH at 31 March 2016. Scottish social landlords are expected to ensure compliance with ESSH by 31 December 2020 and we will continue to monitor Sanctuary Scotland's progress with ensuring the former CHP homes meet ESSH by the target date.

Sanctuary Scotland is progressing the de-registration of CHP and TFHC and will formally apply to us for de-registration by the end of September 2017.

Our engagement with Sanctuary Scotland Housing Association Ltd in 2017/18 – Medium

We will engage with Sanctuary Scotland because it is systemically important and about its development and asset management.

1. Sanctuary Scotland will send us by 30 June 2017:
 - its approved business plan including details of how this fits into the group business plan;
 - 30 year financial projections consisting of a statement of comprehensive income, statement of financial position and statement of cash flows complete with assumptions and explanatory narrative;
 - a comparison of projected loan covenants against covenant requirements;
 - financial sensitivity analysis which compares the resulting covenant calculations with the current covenant requirements, together with risk mitigation strategies;
 - its 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. Sanctuary Scotland will send us:
 - as they become available copies of its governing body and audit committee minutes for Sanctuary Housing Association;
 - an update on its development projects, including funding plans, timescales, completions and any material delay or changes, by 31 October 2017; and
 - its asset management strategy by 30 September 2017.
3. We will:
 - review the minutes of the governing body and audit committee meetings;
 - meet the Chair in quarter three to discuss its business model, strategy and the challenges facing the organisation; and
 - provide feedback on the business plan and discuss the financial information provided in quarter three.

4. We will engage with Sanctuary Scotland about the service quality areas we have highlighted from the Tenants First ARC return to monitor progress.
5. Sanctuary Scotland 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.

Our lead officer for Sanctuary Scotland 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.