

## Scottish Borders Housing Association Ltd

### 31 March 2017

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

### Regulatory profile

SBHA was registered as a social landlord in 2003 and has charitable status. It owns 5,638 homes and provides factoring services to 145 owners across the Scottish Borders local authority area and employs around 185 people. As at the 31 March 2016 its turnover, for the year, was just over £20.5 million and its debt per unit was £4,893.

It has two unregistered subsidiaries, Scottish Borders Building Services which is dormant and SBHA Plus which carries out SBHA's non-charitable activities. SBHA Plus has also established a Post Office service within SBHA's office in Selkirk.

### 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 SBHA's size, we consider it to be systemically important.

### Engagement

During 2016/17 we reviewed SBHA's strategic plan and annual business plan as well as its financial projections. We met with the Executive Team to provide feedback on this information and discuss the risks and challenges within these plans.

In addition we reviewed the work SBHA has undertaken to demonstrate affordability to its tenants. This provided us with assurance with SBHA's approach. We will engage with SBHA as it develops this further during 2017/18.

SBHA has been implementing a planned business change programme, which has included a staff restructure and the introduction of the SBHA Solutions team which provides a customer service centre and a first point of contact for all tenant services. SBHA is now reviewing the staff structure within its property services division to ensure its future sustainability. SBHA will update us as this progresses.

In addition SBHA is making fundamental changes to its governance structure to support its future strategic aims. We will continue to engage with SBHA during 2017/18 to get assurance that these proposals follow our regulatory guidance.

SBHA identified from a 100% external survey that 129 homes failed the Scottish Housing Quality Standard (SHQS) and has plans in place to address this by the end of May 2017.

SBHA has told us that less than 32% of its properties met the Energy Efficiency Standard for Social Housing (ESSH) at 31 March 2016. RSLs are expected to ensure compliance with ESSH by 31 December 2020 and we will continue to monitor and assess SBHA's progress with this.

SBHA has an on-going development programme and plans to develop a small number of homes for social rent and will receive public subsidy to help achieve this. SBHA is exploring other development opportunities such as mid-market rent units and we will discuss these as they progress.

To assess the risk to social landlord services we have reviewed and compared the performance of all Scottish social landlords to identify the weakest performing landlords. We found that SBHA is in the bottom quartile for all social landlords for three satisfaction indicators, for gross rent arrears of rent due and for tenancy sustainment. We will review SBHA's performance when we receive its ARC return in June 2017.

### **Our engagement with Scottish Borders Housing Association Ltd in 2017/18 – Medium**

We will engage with SBHA because it has been identified as being systemically important, is undertaking business and governance changes and continues its development programme.

1. SBHA will send us by 30 June 2017:
  - its approved business plan;
  - 30 year financial projections consisting of 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;
  - 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. SBHA will send us updates:
  - on its development projects, including funding plans, timescales, completions and any material delay or changes, by 31 October 2017;
  - on its planned governance changes when available;
  - on the SHQS fails by the end of May 2017; and
  - on progress with its staff restructure within the property services division.
3. SBHA will send us its governing body and audit committee minutes as they become available.
4. We will:
  - provide feedback on the business plan and discuss the financial information provided by the end of September 2017;
  - review and feedback on the proposed governance changes and liaise with SBHA on the consent to the rule change as required;
  - liaise as necessary around the changes within the property services division; and
  - review the minutes of the governing body and audit committee meetings.
5. SBHA 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 Scottish Borders 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.