

Scottish Borders Housing Association Ltd

29 March 2018

This Regulation Plan sets out the engagement we will have with Scottish Borders Housing Association Ltd (SBHA) during the financial year 2018/19. 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. SBHA currently owns and manages 5,653 homes and provides factoring services to 145 owners across Scottish Borders local authority area. It has charitable status and employs around 181 people.

SBHA 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.

As at 31 March 2017 SBHA's turnover for the year was £21 million and its debt per unit was £4,880.

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 2017/18 we reviewed SBHA's annual business plan as well as its financial projections. We met with the Executive Team and the Board to provide feedback on this information and discuss the risks and challenges facing the organisation.

The information SBHA provided included details of its new approach to its planned maintenance programme as part of its asset management strategy.

During 2017/18 SBHA made fundamental changes to its governance structure to support its future strategic aims. We will continue to engage with SBHA during 2018/19 as SBHA embeds this new structure into the organisation.

SBHA also completed the implementation of a business change programme with the restructure of its property services division to ensure its future sustainability.

We reviewed SBHA's treasury management in March 2018. This gave us assurance about SBHA's approach and highlighted the strengths of its treasury functions in respect of the Regulatory Standards of Governance and Financial Management.

SBHA has an on-going development programme of new housing for social rent and will receive significant public subsidy to help achieve this.

During 2017/18 we engaged with SBHA about a number performance indicators and it has implemented improvements across some of these indicators.

To assess the risk to social landlord services we have reviewed and compared the 2016/17 performance of all Scottish social landlords to identify the weakest performing landlords. We found that Scottish Borders is in the bottom quartile for all social landlords in relation to four satisfaction indicators, rent loss due to empty properties, days to re-let and gross rent arrears of rent due. For three of these indicators Scottish Borders' performance is deteriorating. We will review Scottish Borders' performance when we receive its ARC return in June 2018.

SBHA has highlighted that 35.5% of its homes currently meet the Energy Efficiency Standard for Social Housing (ESSH). We expect SBHA to have plans in place to meet ESSH by December 2020. We will review SBHA's performance when we receive its ARC return in June 2018.

Our engagement with Scottish Borders Housing Association Ltd in 2018/19 – Medium

We will engage with SBHA because it is systemically important and as it continues its development and investment programme and also to monitor its service quality performance:

1. SBHA 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. SBHA will send us copies of its Board and audit committee minutes as they become available.
3. SBHA 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.
4. We will:
 - review the minutes of the Board and audit committee meetings;
 - review SBHA's development update in quarter three of 2018/19;
 - meet with SBHA's senior staff and the Chair to discuss the risks and challenges facing the organisation; and
 - discuss the business plan and financial projections at the same meeting.
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.

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.