



Llywodraeth Cymru
Welsh Government

www.cymru.gov.uk

Welsh Government Housing Directorate – Regulation

Regulatory Assessment Report

Merthyr Tydfil Housing Association Limited – L042

December 2014

Welsh Government Regulatory Assessment

The Welsh Ministers have powers under the Housing Act 1996 to regulate Registered Social Landlords (RSLs) in Wales in relation to the provision of housing and matters relating to governance and financial management. Part 1 of the 1996 Act is amended by Part 2 of the Housing (Wales) Measure 2011 ('The Measure') and provides the Welsh Ministers with enhanced regulatory and intervention powers concerning the provision of housing by RSLs and the enforcement action that may be taken against them.

The Welsh Ministers are publishing this Regulatory Assessment report under section 33A of the Housing Act 1996. The work undertaken follows the risk-based approach to regulation and seeks to identify strengths and areas for improvement in meeting the delivery outcomes (standards of performance) set out in *'The Regulatory Framework for Housing Associations Registered in Wales'* (*'The Regulatory Framework'*).

This report sets out the Welsh Government's Regulatory Assessment and is designed to provide the RSL, its tenants, service users and other stakeholders with an understanding of how well it is performing, at a specific moment in time, against the delivery outcomes relating to:

- Landlord services
- Governance
- Financial management

Housing Regulation Team
Welsh Government Housing Division
Merthyr Tydfil Office
Rhydycar
CF48 1UZ

e mail: housingregulation@wales.gsi.gov.uk

Overall Conclusion

Merthyr Tydfil Housing Association's (the Association) Self Assessment has been developed in accordance with Welsh Government guidance and provides evidence to demonstrate performance against delivery outcomes. It continues to be reviewed and improved to generate further outcomes information to evidence delivery.

The Association's Board members and staff demonstrate clear adherence to the principles of co-regulation.

The Board is performing well against the majority of principles set out in *Community Housing Cymru's Charter for Good Governance ('The Charter')* and continues to improve its approach.

The Association's governance promotes equality of opportunity by monitoring the diversity of its Board, staff, tenants and key services. The Board's membership meets the gender balance criteria, and has a mix of other protected characteristics.

The Association accepts that it would benefit from improving some aspects of governance. Improvements are underway in some areas including Board information, feedback to tenants, service standards and formalising and embedding its approach to value for money.

Risk identification and management are well established within the organisation. The Board could further improve its approach by developing a more thorough scrutiny of risks. The Association would also benefit from action by the Board and senior staff to embed a culture of risk identification and management throughout the organisation.

Prompted by the recent departure of the Chief Executive and the retirement of the Chair, the Board is considering the Association's options for the future.

The Association's planned maintenance programme is on target to meet the Welsh Housing Quality Standard by 2016. The programme is informed by up to date stock condition survey information. An independent evaluation of this information is planned. The Association recognises the need to develop a robust Asset Management Strategy, including an evaluation of assets and stock options appraisal.

The Association has identified budget overspends on bringing empty properties to lettable standard and reactive maintenance costs. We are satisfied that issues identified by a review of these costs are being addressed to improve future cost management.

Our judgement of the Association's financial viability remains unchanged from last year. As at 30 September 2014, the judgement is "Pass".

The Association's tenants indicate good levels of satisfaction with its services overall. Tenants have identified scope for improvements to repairs and grounds maintenance services, although levels of tenant satisfaction with these services are good.

The Old Town Hall (Redhouse) project has issues relating to its operating revenue and costs. It is considered to be an ongoing risk; particularly should financial performance not improve.

The Association's tenant information booklet, *'How your Landlord is Regulated – Explained'*, has been identified as an example of shared learning.

Introduction

Merthyr Tydfil Housing Association Limited (Merthyr Housing)

Merthyr Housing is an RSL, established in 1977. It is registered under the Co-operative and Community Benefit Societies Act 2014, with charitable rules.

Merthyr Housing owns and manages 1,130 properties within Merthyr Tydfil County Borough. In addition to general needs homes, it owns one sheltered housing scheme and seven commercial units.

Scope

This Regulatory Assessment has been undertaken in accordance with the risk-based approach to regulation set out in 'The Regulatory Framework' and associated guidance '*Improving the implementation of the Regulatory Framework: a risk based approach to regulation*' and '*Sector risks facing housing associations in Wales*'.

The risk assessment has been carried out using information and knowledge from regulatory engagement and up to date information provided by the Association. The risk assessment identified a number of material risks, set out below, which we have considered in more detail:

Material risks which are part of this Regulatory Assessment	Risks considered non material and not part of this Regulatory Assessment
<p>Sector risks</p> <ul style="list-style-type: none"> • Governance • Risk management • Existing stock • Costs • Service risks <p>Association specific risks</p> <ul style="list-style-type: none"> • Old Town Hall (Redhouse) 	<p>Sector risks</p> <ul style="list-style-type: none"> • Income • Welfare reform • Managing a housing development programme • Diversification • Community decline • Liabilities (new and existing debt) • Accounting issues • Pension costs • Differential inflation rates • Overstretch and stagnation • Collaboration and partnership working <p>Association specific risks</p> <ul style="list-style-type: none"> • Taff and Crescent Street

Governance and Financial Management

Governance

Merthyr Housing's Self Assessment has been developed in accordance with guidance issued by the Welsh Government and provides evidence to demonstrate performance of delivery outcomes. The Association continues to review its approach to self assessment. This will include more focus on outcomes and integration into its Operational Business Plan, to improve its use as a live business tool.

The Association's Board members and staff have clearly demonstrated adherence to the principles of co-regulation.

Merthyr Housing has adopted *'The Charter'* as its standard for governance. The Board's performance has been evaluated. An annual review of governance, with regular external independent input, is undertaken. This could be enhanced by aligning it more closely with *'The Charter'* to identify the scope for further improvement and taking action accordingly.

A skills matrix is used to identify skills gaps within the Board, with individual appraisals identifying training and development needs.

The Board owns and monitors delivery of the Business Plan and has recently reviewed its Operational Business Plan, setting the strategic direction jointly with senior staff. The Board has an effective relationship with its senior management team and clear ownership of all key corporate plans and strategies.

There is evidence of sound decision making at Board meetings. The depth of scrutiny has been variable, leading to delayed action in the past, and the Association has learned from this.

Performance management systems monitor the delivery of the business strategy and focus on outcomes for key business areas. Board papers could be further improved by including more outcome information with less emphasis on operational detail. This is recognised and is being addressed through a review of Board information.

The Association is accountable for the quality of services delivered, open about its activities and publishes balanced performance information. It encourages complaints, manages them well and there is evidence that the organisation analyses and learns from them.

Merthyr Housing's staff and culture encourage early tenant involvement in shaping and reviewing services. Tenant satisfaction with involvement opportunities is considered to be good. The Association recognises that it needs to improve feedback to tenants and to review the current service standards to be more specific and more readily monitored.

Whilst Board members understand value for money, it needs to become fully embedded throughout the organisation's operational and strategic decision making. The Association would benefit from setting out a clear and strategic approach to value for money, to assist effective application.

The Association has achieved the regeneration of the historic Old Town Hall (Redhouse). This large scale project has frequently diverted the focus of the senior management team and key staff, which has affected the resources available to concentrate on the day to day business.

The Association's governance promotes equality of opportunity by monitoring the diversity of its Board, staff and tenants, as well as key services. The Board has 12 members; 58% of whom are female. It has met the criteria for gender balance, as well as having a mix of other protected characteristics, within its Board membership.

Merthyr Housing recognises that it faces new challenges. The recent departure of its Chief Executive and the retirement of the Chair have prompted the Board to give thorough consideration to the Association's options for the future.

Future regulatory engagement will focus on:

- quality of self assessment
- quality of Board scrutiny and Board papers
- feedback to tenants
- approach to value for money
- impact of changes in the Association's leadership and consideration of its future direction

Risk Management

Merthyr Housing has a well established approach to risk identification and management, which is well managed and understood by the Board and senior staff.

The Board takes ownership of the Association's risk strategy, which covers the management of both operational and strategic risk registers. It needs to scrutinise risks more when reviewing them, including appropriate challenge of mitigating controls.

Staff at all levels have an awareness of risk. This needs to be built on to fully embed effective risk identification and management across the whole organisation.

Whilst the Board has a relatively low appetite for risk, it is not risk averse.

Future regulatory engagement will focus on:

- quality of Board scrutiny when reviewing risks
- development of a culture of risk identification and management throughout the whole organisation

Existing Stock

The Association's planned maintenance programme is on target to meet the Welsh Housing Quality Standard by 2016. The programme is informed by up to date stock condition survey information, which the Association accepts needs independent evaluation. An independent evaluation of the stock condition information is planned.

The Association recognises the need to develop a robust Asset Management Strategy, to better profile its stock. This should include a financial and neighbourhood evaluation of its assets and stock options appraisal.

A recent review of the costs of bringing empty homes up to lettable standard and of reactive repairs has highlighted the need for improvements in value for money and cost control. Issues identified in the review are being addressed, to improve the efficiency and effectiveness of these services.

Adequate funding is in place to deliver planned and reactive maintenance.

The Association manages relevant health and safety risks appropriately. It needs to formalise its fire safety management plan.

Future regulatory engagement will focus on:

- independent evaluation of stock condition information
- development of a robust Asset Management Strategy
- impact of improvements in value for money and cost control in relation to voids and reactive maintenance
- formalisation of its fire safety management plan

Costs

The Association's costs in relation to voids were significantly over budget in 2013/14. This was identified by staff at a relatively early stage, with steps to manage the resulting overspend having only recently been taken. This has included a detailed internal review of the voids process. A number of improvements have been put in place which have strengthened the management of voids costs.

Future regulatory engagement will focus on:

- quality of cost management in bringing empty homes up to lettable standard

Financial Viability Judgement

Our judgement of the Association's financial viability remains unchanged from last year. As at 30 September 2014, the judgement is "Pass – the Association has adequate resources to meet its current and forecasted future business and financial commitments". The 30 year forecast does show that the Association is facing some financial pressures in the short to medium term. The Association's response to this will continue to be monitored, through ongoing regulatory engagement.

Landlord Services

The Association's tenants indicate good levels of satisfaction with its services overall.

Tenants have identified the repairs and grounds maintenance services as areas for improvement, although levels of tenant satisfaction with these services are good. Some enhancements to these services are currently being considered. A review of the grounds maintenance service standards is also planned.

The Association involves tenants in shaping and reviewing services through a variety of methods. The need to improve feedback to tenants in response to their involvement is recognised.

Anti-social behaviour is dealt with by specialist staff using a variety of prevention, early intervention and enforcement means, with adequate tenant satisfaction levels.

Domestic violence awareness training is provided for all staff, along with support and increased safety measures for victims and appropriate partnership working.

The Association supports the Local Authority in its duty to address homelessness. On an operational level, nominations are regularly accepted and the rehousing of homeless households is monitored. At a strategic level, the Association has participated in some Local Authority homelessness projects and pilot schemes.

Equality Impact Assessments are carried out for all the Association's policies and procedures.

Future regulatory engagement will focus on:

- enhancements to the repairs and grounds maintenance services
- feedback to tenants, in response to their involvement

Association Specific Risks

Old Town Hall (Redhouse)

During 2013/14, Merthyr Housing managed and completed the restoration and renovation of Merthyr Tydfil's historic Old Town Hall, renamed Redhouse. The building is now used as an arts and creative industries centre.

The Association had no previous experience of delivering projects of such a size and nature and delivered an £8m grant funded capital project on time and within budget. It has plans to transfer the Old Town Hall to a company limited by guarantee by April 2015. It understands that this is crucial to the management of the risks associated with this large scale project.

To date, the focus has been on the renovation of the building. Income levels are below expectation in terms of lettings and revenue. The priority now is marketing the services on offer to meet projected income targets.

Given current issues relating to operating revenue and costs, the Old Town Hall (Redhouse) is considered to be an ongoing risk; particularly should financial performance not improve.

Future regulatory engagement will focus on:

- achievement of the transfer of the project to a new company
- financial performance in relation to operating revenue and costs

Shared Learning

Merthyr Housing has produced an information booklet for its tenants entitled '*How your Landlord is Regulated – Explained*'. This booklet explains self assessment, delivery outcomes and regulation in a simple, clear and easy to read format. It was disseminated to all tenants and includes a feedback form, providing tenants with an opportunity to give their views.

Sources of Information and Regulatory Activity

The scope of a Regulatory Assessment is to establish whether the RSL has met the delivery outcomes in connection with their functions relating to the provision of housing and matters relating to governance and financial management set out in *'The Regulatory Framework'*. The scope considers if the RSL is a well governed, managed and financially viable organisation against ten delivery outcomes, set out below.

Governance and Finance

- We place the people who want to use our services at the heart of our work – putting the citizen first
- We live public sector values, by conducting our affairs with honesty and integrity, and demonstrate good governance through our behaviour
- We make sure our purpose is clear and we achieve what we set out to do – knowing who does what and why
- We are a financially sound and viable business
- We engage with others to enhance and maximise outcomes for our service users and the community

Landlord services

- We build and renovate homes to a good quality
- We let homes in a fair, transparent and effective way
- We manage our homes effectively
- We repair and maintain homes in an efficient, timely and cost effective way
- We provide fair and efficient services for owners

The following standard information, supplemented by other information as required, is received from Associations and reviewed by the Welsh Government:

- Audited annual accounts, including the internal controls assurance statement
- External auditors' management letters
- 30 year financial forecasts
- Quarterly management accounts
- Private finance returns
- 5 year business plans
- Welfare reform data collection
- Internal audit reports
- Board papers, as requested
- Financial and risk management information collected through undertaking regulatory engagement

In addition to the above, the following specific activities are carried out:

- Regulatory activity, via a relationship management approach to regulation, including contact with tenants and service users, senior staff, operational staff, Board members, key stakeholders and visits to some key sites
- Review of the Self Assessment, key customer information and associated 'hard' and 'soft' evidence relating to the delivery outcomes

Basis of Regulatory Assessment

This Regulatory Assessment is based on information submitted by the RSL, the Regulator's knowledge and experience of the RSL.

In preparing this report, the Welsh Ministers have relied on the information supplied by or on behalf of the RSL. The Directors of the RSL remain responsible for the completeness and accuracy of such information.

This report has been prepared for the RSL as a Regulatory Assessment. It must not be relied upon by any other party or for any other purpose. Any other parties are responsible for making their own investigations or enquiries.