

# Tenant Services Authority Regulatory Judgement

**Arcon Housing Association Limited L0249**

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The Tenant Services Authority (TSA) has prepared this report to set out its overall assessment of the association's compliance with the regulatory framework for registered social landlords (RSLs). These requirements are set out in the Regulatory Code and Guidance established by the Housing Corporation which will remain in place until new standards are determined by TSA.

The report sets out the TSA's view as to whether the organisation is:

- **VIABLE**
- **PROPERLY GOVERNED**
- **PROPERLY MANAGED**

In preparing this report the TSA has placed reliance on the completeness and accuracy of information supplied to us, and prior to 1 December 2008, to the Housing Corporation, by the association and other parties.

This information was used to inform our risk-based approach to regulation and to identify areas of possible non-compliance with the Regulatory Code for further investigation. Our risk-based approach also results in low levels of regulatory engagement with some associations, for whom the information provided in this assessment could necessarily be in less detail.

The TSA is the Regulator of Social Housing. This report has been compiled to assist the TSA in its statutory duty of regulation of Registered Social Landlords. Our report makes clear to the association's board the conclusions we have reached regarding the association's compliance with the Regulatory Code.

The TSA accepts no liability whatsoever for the accuracy or completeness of any information or assessment contained herein. No third party may rely on its contents, but must make its own investigations or enquiries.

## Description of the group

Arcon Housing Association (Arcon) was set up in 1972 with the aim of providing high quality homes to those in housing need in the Greater Manchester area. It is registered as an Industrial & Provident Society and adopted charitable rules in 2006 to more accurately reflect the focus of its business activities.

It owns and manages some 1,000 homes in 11 local authorities. Half of its homes are in Manchester with most of the balance falling within the Greater Manchester area. In addition it has homes in Fylde, Macclesfield and High Peak. The vast majority is general needs housing, with a small number of special needs and market rented properties. It has one unregistered subsidiary, Arcon Developments Limited (ADL), established as a development vehicle in 2001 and which owns 28 market rented homes and three shared ownership homes.

The homes are predominantly small, one and two bedroom, with just 110 three bed homes and four with four bedrooms. One fifth of tenants hold secure tenancies suggesting that they have been tenants of the association for 20 years or more.

The majority of properties were built, or acquired and refurbished, in the late 1970's and early 1980's, with recent limited development activity being mainly directed towards special needs schemes, market rented schemes and shared ownership. The special needs units are all managed by partners. Around a third of the stock is terraced housing located in areas of Manchester and Salford where low demand issues continue to dominate.

Arcon operates across a wide geographical area, where black and minority ethnic (BME) populations vary between 7% and 19%. However, its stock tends to be concentrated in areas where BME population levels are not significantly high.

Arcon's business objective in the provision of social housing is 'to provide homes for those in housing need where they may live with pride and dignity'. The association's strategic objectives identified in its business plan include:

- Maintaining properties to the highest standard
- Promoting good relations with partners
- Improving service delivery
- Maintaining a strong financial position

**Viable** – Regulatory Code part 1

**The association meets the expectations set out in the Regulatory Code in terms of financial viability, however exposures exist which make it vulnerable to deterioration.**

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We have amended our judgement on viability from that shown in our last Annual Viability Review. Financial projections submitted in March 2008 show that Arcon has to meet challenging targets in order to meet loan covenants and to operate within its agreed loan facilities. Covenants are tight in the short to medium term as Arcon

progresses with both its major repairs programme and its development aspirations. The main exposures are:

- Key ratios are poor and Arcon's capacity to absorb the impact of any unforeseen adverse events has reduced.
- Arcon's sales programme may not be fully achieved due to the slowdown in the property markets which could impact on its ability to meet financial obligations and to comply with all of its loan covenants.
- There is a risk that Arcon may not achieve its intended cost savings which could also have an impact on covenant compliance.

Arcon's rents are currently below rent influencing targets. The association is not obliged to increase rents to meet target if it is able to fulfil its commitments to tenants, lenders and other stakeholders and can meet future repair obligations on stock. However, in order to meet loan covenants the association has revised its programme of repair works by identifying cost savings. A review of the rent plan may also be appropriate. The association is currently on track to meet the Decent Homes Standard (DHS) by 2010.

Arcon's audited financial statements show an operating surplus of £18K was generated in 2007/08. Looking forward, Arcon will continue to be dependent on income from asset sales for the next five years to meet its financial obligations and to produce surpluses after tax.

The association's original loan facilities were fully utilised at March 2008. A new loan facility, sufficient to cover the association's requirements to March 2011, has recently been finalised. Cash flow projections indicate positive cash balances throughout the plan. However, this is dependent on the association achieving a significant level of income from housing property sales.

Covenants will need to continue to be closely monitored. Arcon recognises compliance will be tight but expects covenant compliance to become more comfortable from 2009/10 onwards when the major repairs programme decreases.

Arcon's sales programme for 2009/10 includes nine shared ownership properties currently being marketed, eight asset sales and one Right to Buy sale. The association may consider converting any unsold Low Cost Home Ownership (LCHO) units to intermediate rent as a solution to meeting forecast sales but prefers LCHO sales at 25% of property value. The association is, however, looking at ways to reduce non core expenditure in order to increase operating surpluses. Furthermore, any new development, beyond that committed to in 2008/09, will only be undertaken by the association subject to risk and financial appraisals.

The above issues have been a priority for the association when setting the budget for 2009/10 whilst also bearing in mind the delivery of promises to tenants, achieving compliance with DHS and meeting loan covenants. We will keep in close contact with the association over the next twelve months, mainly through our quarterly surveys, our regulatory review of the financial returns to be submitted for the period ending 31 March 2009, and our programme of regulatory contact meetings.

**Properly governed** – Regulatory Code part 2

**The governing body, supported by appropriate governance and executive arrangements, maintains satisfactory control of the organisation.**

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Arcon operates with a board of 12 which meets quarterly and is supported by a series of committees: finance and business development; housing management; tenant scrutiny; audit and risk management. The committees are populated partly with board members and partly with co-optees.

There is a tenant on the main board, and also tenant representation on some of the committees. Members bring a range of suitable skills and some work in the social housing sector which facilitates sharing of best practice.

The board has adopted the National Housing Federation's code of governance with the exception of terms of office. We note that some board members have served terms that significantly exceed what is regarded as good practice.

In our view, the board should periodically formally review these arrangements in the light of sector best practice so as to provide assurance that the best arrangements are in place.

The association's self assessment statement of compliance with the Regulatory Code for 2008 was robust. We are satisfied that Arcon meets the requirements of the Regulatory Code.

Arcon provided a detailed analysis of its approach to diversity as part of its 2008 self assessment. This reveals that it has a three year action plan in place running from 2006/09 and has complied with requirements to produce gender and disability equality action plans. There is some evidence of improved outcomes being achieved. For example, the association's figures show lettings to BME households rising from 4.5% in September 2006 to 16.7% in March 2008. Based on its self assessment, our judgement is that Arcon complies with regulatory requirements relating to diversity.

Tenant involvement in decision making operates at different levels. There is a tenant committee and the chair sits on the main board as well as the housing management committee. A menu of opportunities for involvement includes the tenant committee, tenant forum, scheme development meetings, and through planned service reviews. Arcon has confirmed that it complies with regulatory requirements on resident involvement.

The association has a risk management framework in place, which is considered by the board each year and monitored by the audit and risk management committee. We believe this is appropriate given the current size and circumstances of the organisation.

**Properly managed** – Regulatory Code part 3

**The association generally meets the standard expected given the context in which it works and the available resources.**

### **TSA Regulatory Judgement**

Arcon has an experienced senior management team.

We judge Arcon's operational performance during 2007/08 to be reasonable as evidenced by the published performance indicators. Performance on re-letting empty properties moved from third quartile in 2007 to second quartile in 2008, but void performance remained as third quartile.

Tenant satisfaction was measured in 2007 and the three main measures were in the top quartile when benchmarked nationally. The result for satisfaction with overall service, at 91%, put Arcon in the top ten per cent of associations for that indicator.

Some stock is difficult to let - a handful of properties in 2008 required six or more offers to find a tenant - but the percentage of general needs homes empty and available to let at the end of March 2008 was 0.6% which represents the national average.

The association has an asset management strategy in place that addresses issues arising from its operating context. In addressing its strategic direction and growth aspirations, the association is working closely with its local authorities and other associations and discussions include the potential for stock rationalisation.

Average SAP rating, a measure of the thermal efficiency of a property, at 64.7 remains some way below the national average (67.5) although there has been some incremental improvement. As Arcon has confirmed that it will meet the DHS within the set timescale, we expect to see further improvement.

Arcon has a clear commitment to continuous improvement based upon a system of best value reviews across all service areas. This sits alongside an action planning process based on the Audit Commission's published key lines of enquiry. The wishes of residents, and others, are balanced against available resources within a clear and transparent process.

### **Sources of information and regulatory activity**

The following information is generally received from all associations and is reviewed by the TSA (and prior to 1 December 2008, the Housing Corporation) for each association:

- Audited annual accounts, including the internal controls assurance statement
- External auditors' management letter
- Annual self-assessment of compliance with the Regulatory Code
- Performance indicators
- Regulatory and Statistical Return
- Financial forecasts

In addition to the above, the following specific activities were carried out for Arcon Housing Association:

- Meetings with executive team - May 2008 and March 2009
- Annual Viability Review based on FV5 - March 2009
- Quarterly credit and housing market survey

Additional information about the association can be accessed on the TSA website, the Housing Corporation legacy website and other websites and may include:

- Performance indicator information ([www.housingcorp.gov.uk](http://www.housingcorp.gov.uk))
  - Inspection reports ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk))
  - Extracts from the Public Register ([www.tenantservicesauthority.org](http://www.tenantservicesauthority.org))
- Rent information and other key facts and figures ([www.rsrsurvey.co.uk](http://www.rsrsurvey.co.uk) and [www.dataspring.org.uk](http://www.dataspring.org.uk))