Homes & Communities Agency

The Social Housing Regulator

HCA Regulatory Judgement on Rochdale Boroughwide Housing Limited – 4607

April 2016

The provider

Rochdale Boroughwide Housing Limited (RBH) is a large scale voluntary transfer provider which took ownership of around 13,700 tenanted homes and 500 leasehold properties from Rochdale Metropolitan Borough Council in March 2012. RBH had previously managed the stock as an arm's length management organisation.

RBH has two wholly owned non-registered subsidiaries, RBH (Design and Build) Limited, and RBH Professional Limited, which support its strategic objectives. RBH also has a 50% interest in Safegard Solutions Limited, a joint venture with Securecom Limited which provides alarm call and CCTV services.

RBH employs the equivalent of 582 full time employees and had a consolidated turnover of £57.9m in the year to 31 March 2015.

RBH's main strategic objective is to deliver a programme of improvements to homes and neighbourhoods following transfer.

Reason for publication: Governance downgrade

Regulatory Ratings*

- **Properly Governed: G2**

The provider meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance.

- **Viable: V2**

The provider meets our viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

*The regulator's assessment on compliance with the Governance & Financial Viability standard is expressed in gradings from G1 to G4 for governance and V1 to V4 for viability. For both viability and governance the first two grades indicate compliance with the standard. A G3 or V3 assessment indicates a level of concern with the organisation's performance that is likely to be reflected in intensive regulatory engagement. A G4 or V4 judgement indicates a more serious failure of governance or viability leading to either intensive regulatory engagement or the use of enforcement powers.

For further details of our regulatory approach, please see Regulating the Standards on http://www.gov.uk/hca.

Regulatory Judgement

This regulatory judgement downgrades our previous assessment of RBH's governance published in October 2015.

RBH continues to meet the requirements on governance set out in the Governance and Financial Viability Standard, but needs to improve some aspects of its governance arrangements to support continued compliance.

The Governance and Financial Viability Standard requires registered providers to have an effective risk management and internal controls assurance framework. RBH needs to strengthen its control arrangements to ensure adherence to all relevant legislation and regulatory requirements.

In November 2015 RBH reported to the regulator that, following termination of a contract with a long established tenant management organisation, it identified a number of out-of-date gas safety certificates. In some cases the certificates had been expired for up to two years. Under the terms of the agreement, the managing agent was responsible for undertaking the gas safety checks. However, RBH remained the landlord and therefore retained responsibility for meeting regulatory standards and complying with health and safety legislation. It therefore retained responsibility for ensuring gas safety certificates were up to date.

While we acknowledge that RBH took action to resolve the difficulties with its managing agent, we have nevertheless concluded that the board failed to recognise, over a significant period, that the assurances it was receiving regarding compliance with gas safety requirements were insufficiently robust, given the critical nature of this activity, and that this represented a failure of internal control and board oversight. The level of assurance received was not commensurate with the materiality of the risk.

The regulator has separately concluded that there has been a breach of the Home Standard which had the potential to cause serious detriment to RBH's tenants. The regulator has issued a Regulatory Notice to that effect.

The regulator's assessment of RBH's governance recognises that it self-reported and has engaged constructively with the regulator. Once RBH was aware of the non-compliance it took effective action to complete the outstanding gas safety checks. RBH carried out its own review into the circumstances that led to this situation and is implementing a number of recommendations. RBH has confirmed that no similar arrangements exist whereby an agent is responsible for gas safety checks but RBH retains the landlord responsibility for compliance.

The regulator's assessment of RBH's compliance with the financial viability element of the Governance and Financial Viability Standard is unchanged. Based on evidence gained from contact with the executive and the annual stability check, the regulator has assurance that the financial plans are consistent with and support the financial strategy of the provider. RBH has an adequately funded business plan, sufficient security in place, and is forecast to meet its covenants

However, as is common with large scale voluntary transfer providers investing intensively in the stock base in their early years, the financial profile is weak, as demonstrated by negative interest cover and net cash outflows. As a result there is limited headroom within the cashflow-based loan covenants to absorb the impact of adverse events. The regulator's current assessment identifies a number of specific exposures, that individually or in combination, could impact on RBH's viability.

The first exposure concerns the impact of welfare benefit reforms. These changes continue to have the potential to adversely affect RBH's cashflow due to rental income lost from void properties, increased bad debts and higher rent arrears, together with increased costs of rent recovery.

The second exposure concerns delivery of the stock improvement programme on time and within budget. This is crucial in order to meet promises to tenants and comply with lenders' requirements, including meeting loan covenants. RBH is in the final year of its five year transfer investment programme and experience to date suggests that the original stock condition survey data is reliable. Having recovered from some early programme slippage RBH has taken decisions on disinvestment and disposal of low performing assets. Completion of the improvement programme remains an area of exposure that must be closely managed.

Third, due to RBH's loan arrangements, its business plan is exposed in the medium term to both re-pricing and re-financing risks. This could result in significant additional costs for RBH, depending on the timing and prevailing credit market conditions.

A fourth risk concerns differential inflation assumptions used in the business plan. Sensitivity testing by RBH has identified that the business plan would be adversely affected by a medium term increase in RPI inflation, to which cost inflation is tied.

Finally, as a result of the four year rent reduction, RBH needs to deliver a £6m savings programme by April 2018. Sensitivity testing by RBH has identified that the business plan is reliant on these savings being achieved.