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Welsh Government Housing Directorate – Regulation

Regulatory Assessment Report

Pennaf Group – J136

January 2015

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

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Overall Conclusion

Pennaf Housing Group's Self Assessment provides sufficient and robust evidence to demonstrate delivery outcomes. It is considered a reliable source of evidence to inform this regulatory opinion. The Group has actively embraced co-regulation.

Pennaf has strong governance and the Group is operated by a competent Board. The Group structure is well considered and delivers the intended benefits and efficiencies. The Board has a gender balance that reflects the Welsh housing sector average. The Group recognise that it will benefit from;

- Ensuring value for money can be demonstrated in relation to all aspects of the Group's business, as well as procurement
- Enhancing equality and diversity outcomes, including improving its approach to the use of the Welsh language

Risk management at the Group is sound. Risk modelling and financial resilience modelling is undertaken. The Board requires better visibility of compound risk modelling to aid decision making.

The Group has adequate resources to meet its current and forecasted future business and financial commitments. It can meet its existing loan requirements.

The Group has made a significant contribution to the supply of social housing over many decades. It has maximised its financial capacity to deliver more affordable homes through traditional lending routes. Innovative funding schemes are being explored in order to continue to build more homes.

The Group needs to better balance its ambition for growth against the need to invest in existing stock and services. Delivery of the Welsh Housing Quality Standard has taken a longer time period than originally planned, as the Group prioritised the building of new homes over investment in existing ones. The Group has re-visited its plans for delivery and is confident it will deliver the Standard by 2016/2017.

Services are generally satisfactory. Tenant health and safety is managed well. The Group recognises that the performance of PenAlyn, the subsidiary responsible for the delivery of responsive repairs, needs strengthening. Leaseholder services are poor. The Group has prioritised addressing leaseholder concerns and as a result service quality is improving.

The Group provides specialist domestic abuse services. Domestic abuse awareness and support activity has a high profile within the Group and key stakeholders.

Introduction

Pennaf Housing Group

Pennaf Housing Group provides general needs accommodation across North and Mid Wales with some supported accommodation and low cost home ownership. The Group is a parent company, providing central corporate services to the other Group members. It is a company limited by guarantee.

The Group owns 5,600 units of accommodation spread across the seven Local Authorities of Anglesey, Conwy, Denbighshire, Flintshire, Wrexham, Powys, and Gwynedd. The Group comprises:

- Clwyd Alyn – a registered subsidiary provides traditional housing management services to most of the Group's homes
- PenAlyn – a registered subsidiary to deliver repairs and maintenance to tenants
- PenElwy – a registered subsidiary to deliver commercial contract repairs and maintenance to private and public sector organisations
- Tŷ Glas – a care and repair agency
- Offa – a private lettings and management services agency
- Tir Tai – operates as the Group's development company

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*'.

Information and knowledge from our regulatory engagement and information provided by the Group informs our regulatory Risk Assessment. We have identified a number of key risks, set out below, to be considered in more detail:

Material risks which are part of this Regulatory Assessment	Risks considered non material and not part of this Regulatory Assessment
Sector risks <ul style="list-style-type: none"> • Governance • Risk management • Existing stock • Managing a development programme • Service risks • Liabilities (new and existing debt) 	Sector risks <ul style="list-style-type: none"> • Welfare reform • Income (including supported Housing) • Costs • Differential inflation costs • Accounting issues • Pension costs • Diversification & Overstretch • Community decline • Regeneration • Collaboration and partnership working

Governance & Financial Management

Governance

The Group's Self Assessment has been developed in accordance with Welsh Government guidance. Significant, prolonged investment in developing a robust approach to self assessment has yielded an honest appraisal of Pennaf Group's performance. The Self Assessment can be relied upon as a basis for regulatory opinion. The Self Assessment, in most areas, is supported by robust evidence to demonstrate delivery outcomes. The Group continues to strengthen the information it uses to evidence its performance.

Pennaf Group's Board members and staff have embraced the principle of co-regulation. There is a regular, timely, open, and transparent approach to working with Regulators.

Governance at Pennaf Group is strong. The Group aspires to the highest standards for governance. It has developed a bespoke framework against which to assess governance which reflects these aspirations. The framework comprises appropriate standards from *Community Housing Cymru's Charter for Good Governance*, UK corporate governance frameworks and a mixture of standards from the social housing sector in England.

The Group evaluates its governance arrangements including Board performance against this framework every two years, and governance is periodically independently evaluated by its external auditors. The findings indicate that the Board is performing effectively against these standards. The Group recognises that it would benefit from improvements in;

- Ensuring value for money is achieved in relation to all aspects of its business
- Enhancing equality and diversity outcomes including improving its approach to the use of the Welsh language

The Group structure is well considered and delivers the intended benefits to the Group in terms of efficiency.

Pennaf is a well run business operated by a competent Board. The Board is in control of strategic decision making, rather than executives. It comprises members with an appropriate mix of skills. There are effective mechanisms in place to ensure continued capacity and capability. Where specialist skills are required, high quality expertise is readily bought in.

Board composition has a gender balance in line with the Welsh housing sector average. The Group plans to improve equality outcomes across the business which includes actions to continue to boost diversity where appropriate. The Board has had in place a maximum term of office of nine years for its Chair for some time. The Board intends to introduce the same maximum term of office of nine years for Members in line with the new Code of Governance to be introduced for housing associations operating in Wales.

Pennaf Group conducts its affairs honestly, with integrity and demonstrates high standards of probity. The Board demonstrates good governance behaviours.

The Group has a sharp focus on achieving its objectives and is able to demonstrate that it achieves what it sets out to do. The business is structured around key outcomes for its service users. Residents effectively scrutinise performance. Mixed groupings of staff, residents and Board members regularly review performance together to assess progress towards achieving business outcomes. Formal complaints are dealt with fairly and efficiently. Complaint outcomes are communicated clearly and recommendations implemented.

The organisational culture supports and ensures the delivery of outcomes. The Group aspires to the highest standards of workplace effectiveness through employee engagement. It has been consistently placed amongst the top 100 best companies to work for in the UK over the past 5 years.

Executive leadership is strong. Directors are well regarded amongst the Group's stakeholders. The Group manages collaboration and partnership working effectively, with clear rationales for entering into arrangements to boost outcomes for communities.

Future regulatory engagement will focus on:

- continuing assessment of Board performance
- the delivery of value for money across the business
- improving of equalities outcomes including the use of Welsh language

The Group has adequate resources to meet its current and forecasted future business and financial commitments. It can meet its existing loan requirements.

The Group effectively manages the risks posed by existing debt arrangements. Board information is clear to ensure risks are properly considered when making investment decisions. Loan covenants are reviewed systematically and with appropriate frequency. The Board is exploring new ways of financing the building of new homes.

Future regulatory engagement will focus on:

- gaining assurances that the Group understands and is effectively mitigating risks around the new financing schemes being explored by the Group to increase the number of homes built

Risk Management

Risks are appropriately identified, considered and mitigated. The Board has a clearly stated low appetite for risk. Within the approach to risk management, the Board has issued clear guidance to staff setting out areas of the business where higher levels of risk are acceptable in order to promote creativity and innovation.

A higher degree of risk has been required to explore available non traditional housing funding streams. This exploration of new ways to fund development has challenged the Board.

Resilience modelling needs to be more strongly embedded as the Group embarks on higher risk activities. There is scope to share more compound risk modelling and financial stress testing with the Board to aid decision making. Where risks have materialised, Pennaf's response has been robust, demonstrating good organisational resilience.

Future regulatory engagement will focus on:

- reviewing stress testing and the modelling of new finance schemes
- additional assurances will be sought to ensure the Board understand risk exposures presented by innovative finance schemes
- ensure the risk management approach reflects increased risk

Existing Stock

The Group needs to better balance its ambition for growth against the need to invest in existing stock and services. Investment in developing new homes has been at the expense of investment in existing homes. Delivery of the Welsh Housing Quality Standard has been over a longer time period than the Group would prefer due to financial gearing constraints. The Group will now deliver the Welsh Housing Quality Standard by 2016/2017.

Planned programmes are adequately resourced to maintain compliance with the Welsh Housing Quality Standard. Additional planned maintenance investment has been identified and budgeted from 2013/14 onwards.

The Groups' stock condition data is robust and reliable as a basis for investment decisions. This has provided the Board with confidence about the resources required to deliver the Welsh Housing Quality Standard now and in the future. This work needs to form part of a more holistic and robust approach to asset management.

Future regulatory engagement will focus on:

- monitoring the work of the Asset Management Panel to ensure the Group's performance is on target to achieve the Welsh Housing Quality Standard by the 2016/2017 deadline

Managing a Development Programme

The Group's development programme is satisfactory. Pennaf has contributed to the supply of social housing in Wales over many years. The contribution has been significant in terms of the numbers of homes and variety of schemes delivered. The quality of the Group's submissions to Welsh Government for funding new schemes needs to improve in order to continue to secure access to public funds to build new homes.

Future regulatory engagement will focus on:

- assessing the quality of new homes developed
- assurance about the quality of scheme submission put forward for future funding

Landlord Services

The Group has an accurate view of its performance as a landlord. The Group uses third party assurances appropriately to certify performance. It is striving to further strengthen comparative information used to assess the quality of services.

Services are generally satisfactory. More could be done to prioritise the improvement of core services over new build and other non core housing activities.

Tenant health and safety is managed well. Where asbestos risks have materialised, the Group's response has been robust. The Group has demonstrated an effective approach to addressing particularly challenging anti-social behaviour where there are larger clusters of homes. Securing the intensity of resources required to deliver similarly effective outcomes amongst its dispersed homes, is proving more difficult.

Activity to address domestic abuse has a high profile within the Group and amongst external stakeholders. A range of specialist domestic abuse services are provided within the Group.

More could be done to showcase the positive outcomes from these services.

Delivery of responsive repairs to tenants has proved challenging. The PenAlyn subsidiary has performed below the Board's ambitious expectations. Performance has improved recently and tenants' experiences of the service are now overwhelmingly positive. The Board's concerns remain about the cost of repairs delivered by PenAlyn.

Leasehold services are poor. The Group has prioritised addressing leaseholder concerns and as a result service quality is improving.

Future regulatory engagement will focus on:

- gaining assurances about the effectiveness and efficiency of responsive repairs and leaseholder services

Shared Learning

Pennaf Group has designed bespoke criteria to evaluate the effectiveness of its governance arrangements. The criteria comprise a mixture of standards, drawn from a variety of sources to set the highest bar possible. Governance is usually reviewed every two years.

Further information is available from Community Housing Cymru.

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.