

# Tenant Services Authority Regulatory Judgement

EastendHomes (L4434)

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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 association**

EastendHomes was set up as a dedicated housing association solely for the purpose of receiving stock transfers from the London Borough of Tower Hamlets (the borough). It was registered with the Housing Corporation in February 2005. The association states that its objective is to be a local housing service that gives residents real control over their estates.

The association operates in an area of high demand, where a large number of existing social homes are in poor condition. The area has a majority of black and minority ethnic (BME) residents, mainly Bangladeshi and Somali. It also has a rapidly growing Eastern European population.

The association currently owns and manages around 2,100 general needs homes and is freeholder of around another 1,400 privately owned homes. All these homes were transferred from the local authority following ballots of residents. All ballots for transfer to EastendHomes have now been completed.

The association also received a significant number of community buildings with the transferring estates. To better manage these community assets, EastendHomes operates an unregistered subsidiary, EastendHomes (Community Development) to facilitate investment on estates through cross-subsidy generated from partnership developments.

**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**

### **TSA Regulatory Judgement**

EastendHomes' accounts for the year ended 31 March 2008 show a 20% increase in turnover to £11.8m, compared to £9.8m in the previous financial year, as a result of stock transfers. Whilst the association's operating surplus for the same period was slightly below the previous year's performance, the net surplus was bolstered by profits from property sales, which improved considerably to £4.2m, compared to £3.1m achieved previously. These profits are being reinvested in the regeneration of the association's estates.

Financial forecasts for the next five years show a steady expected increase in operating surpluses, but net forecast surpluses over the same forecast period show considerable improvements, particularly from year two (2009/10) through to year four (2011/12) as a result of Right to Buy and land sales. The level of net debt increase over the first four years of the projection reflects the association's commitment to refurbishment works to ensure achievement of the Decent Homes Standard (DHS) for all its stock by 2010. The association's peak debt of £32.5m in year four of its plan will be met from an arranged £60m loan facility.

We are continuing to monitor the association's progress in achieving the DHS, as non-compliance remains high at 28%. The association has adopted rent restructuring and expects to achieve target rents for by 2011/12.

Overall, to date the association's financial performance has been within its business plan as agreed recently with the lenders. On the basis of this plan the association appears to have the necessary capacity to deliver its refurbishment programme. However, key assumptions within the business plan could prove to be challenging. Financial exposures requiring particular careful management are: achieving forecast efficiency savings within its operations; recovering projected major repairs costs from leaseholders; containing the refurbishment costs within budget and generating sales of land in the current economic climate at the prices assumed.

The financial profile of the association is typical of a stock transfer association before peak debt has been reached and is acceptable as long as the association delivers against its business plan and manages its financial exposures.

**Properly governed** – Regulatory Code part 2

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

#### **TSA Regulatory Judgement**

EastendHomes has a governance structure that matches the organisation's business objective of giving tenants real control over the way their homes are managed. The governing board is supported by four sub-committees and five estate management boards. The four sub-committees are: Finance and Audit; Personnel; Community Facilities and Commercial Premises, and Service Review.

The board consists of 18 board positions. Of these, two are local authority representatives, eight are independent members and eight are resident members. There are currently 15 board members and three vacancies, to which the board is recruiting.

The board gives effective leadership and controls the strategic direction of the association through its business plan, which is reviewed in March each year. Board members have a range of skills and experience appropriate for the effective running of the association and a system of board member appraisal is in place. Relationships between the board and the executive team are good and mutually supportive.

The estate management boards, one for each housing area, are made up of local residents. These boards monitor services provided to the housing areas and also play a crucial role in involving tenants in the decision making process of the association.

The association's training programme for board members is comprehensive and is regularly reviewed to ensure it meets emerging needs, with resident board members offered regular training opportunities. An induction programme for new board members is in place and the association provides training sessions covering governance, business planning and risk. The board holds an annual away day to

discuss strategic matters, which feeds into management team strategy days.

As a resident-led organisation EastendHomes has developed a comprehensive tenant consultation and participation policy. Residents have regular opportunities for involvement through local estate management boards, which have significant input into shaping service provision. Residents who take part in EastendHomes' participation processes are offered the same training opportunities as resident board members. The association is planning to hold its first tenant conference later in 2009 to further increase tenant input into decision making.

EastendHomes' equality and diversity policy is underpinned by an action statement adopted by the board. This policy covers the key areas of recruitment, employment practices, partnerships and procurement, governance and participation and access to services. The board has also adopted an action plan to address all forms of discrimination, including discrimination on the basis of race. The outcomes in relation to board membership, staffing and new lettings to tenants demonstrate the association is meeting our requirements on equality and diversity.

Our review of the board's 2008 self assessment statement of the association's compliance with the Regulatory Code concluded broad compliance with all the requirements of the Code. The quality of the 2008 submission demonstrated continuous improvement on last year's submission.

The risk map for the organisation is reviewed annually, with the last review in June 2008. This review was able to include new risks associated with the current economic climate and the declining prices for property. Reflecting these increasingly volatile risk environment faced by all housing associations, risk is now also reviewed by management every fortnight to ensure that current key risks are discussed and properly managed as well as identifying any new risks that need to be incorporated into the risk map. A report of decisions is provided to the finance and audit board committee.

We are satisfied with the association's approach to risk management and believe that it has been actively managed to ensure that it remains proportionate to the increasing level of risk faced by 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**

EastendHomes has an experienced senior management team, with most managers and many of EastendHomes' staff having previously worked at the local authority prior to transfer to the association. The team works closely with the board and residents to develop its approach to regeneration. Recent recruitment shows that the diversity profile now more closely reflects that of the borough and demonstrates that the association is continuously improving its equality and diversity outcomes.

EastendHomes is letting to a diverse range of new tenants. All the association's

homes are let through a choice-based lettings scheme, with more than 80% of homes let to BME tenants. A further 52% of homes are let to people classed as statutory homeless, which is a very high proportion. We are satisfied that the association is providing a good housing service to the borough.

The Audit Commission reported on its inspection of the association in December 2008. The Commission found that EastendHomes is providing a good service that has promising prospects for improvement. The association has approved an action plan to address the report's recommendations for improving performance and aims to complete this plan within the 18 months prescribed by the Audit Commission.

EastendHomes commissioned its first STATUS resident satisfaction survey in 2007, which found that 65% of tenants were satisfied with their homes and 53% were satisfied with the opportunities for resident involvement in the management of their homes. This survey was carried out soon after the first homes were transferred from the council and do not fully reflect the activities of the association since transfer. The association now operates a range of systems for testing resident satisfaction between STATUS surveys, including estate surveys of residents, joint estate inspections with residents and customer feedback forms. These are showing a steady improvement in tenant satisfaction with their homes, the services provided by the association and the way tenants are involved in decisions made by EastendHomes. The board also benchmarks its performance against the Tower Hamlets' benchmarking club.

The Status survey showed that the percentage of tenants who were very or fairly satisfied with the way the association deals with repairs was 63%, placing it in the bottom quartile of national performance. However, since the survey, the association has focused on improving its repairs and maintenance with internal PIs showing a material improvement. This improvement was confirmed by the Audit Commission's recent inspection.

The average re-let time for homes has significantly improved from 38 days to 25 days, placing the association in the top quartile of national performance. The association also continues to make good progress in reducing rent arrears and has low eviction levels.

Overall, the association is making satisfactory progress in improving previous weaknesses in services to tenants. Several aspects of the association's operations are now of high standard, including re-let times and reducing rent arrears. We will continue to monitor performance figures to ensure that the improvements are maintained, which we expect will be confirmed when the next Status survey is held in 2010.

EastendHomes has adopted a best value and service review plan for the years 2008/12, with specific services being reviewed to improve their efficiency and quality. The board has also established a service review board with a resident majority to oversee the programme of service reviews. This should result in improved efficiency and higher service standards as the programme progresses.

EastendHomes has continued to make in-roads into the high level of failure in meeting the DHS, with the number of homes meeting the DHS increasing from 58% to 72%. The association confirms it will meet the December 2010 deadline to

achieve 100% compliance with the DHS. We will be monitoring the association's progress.

### **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
- Financial forecasts
- Performance indicators
- Regulatory and Statistical Return

In addition to the above, the following specific activities were carried out for EastendHomes:

- Meetings with executive team (May and October 2008 and January 2009)
- Audit Commission inspection (report issued December 2008)
- Annual Viability Review based on five year financial forecast (March 2009)

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))