

Tenant Services Authority Regulatory Judgement

Liverpool Mutual Homes Limited L4524

Date of publication: December 2009



Tenant Services Authority

Revised Regulatory Judgement

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 – SERVICE DELIVERY**

Overview

This is the first Regulatory Judgement for Liverpool Mutual Homes following the partial transfer of stock from Liverpool City Council on 1 April 2008.

Overall, the TSA's judgement is that Liverpool Mutual Homes is viable, has governance arrangements which are satisfactory and service delivery is improving. It has made strong progress over its first 18 months however it faces challenges in delivering its business plan.

PROFILE TABLE*

Group members	
RSL Code: L4524	
RSL Name: Liverpool Mutual Homes	
Selected Indicators	
Tenant satisfaction with overall service	75.6%
<i>National average tenant satisfaction with overall service</i>	80.4%
Tenant satisfaction with views taken into account	68.8%
Tenant satisfaction with repairs & maintenance service	69.6%
% Homes that comply with Decent Home Standard	49.0%
No. of homes by type	
General Needs	15,263
Housing for older people	704
Supported housing	0
Shared ownership properties	0
Total	15,967
No. of Las in which RSL operates	1

* The figures have been provided by Liverpool Mutual Homes as at 1 April 2009

A reduced set of data is available for some RSLs, particularly those with less than 1,000 units where reduced datasets are collected, hence some information is not available centrally (NA) for these associations. Data is as at March 2009 from the 2009 RSR return.

Description of the association

Liverpool Mutual Homes (LMH) is an Industrial and Provident stock transfer organisation which received the remaining housing stock from Liverpool City Council on 1 April 2008. As at 31 March 2009 the association had 15,967 units in ownership and management across the city.

Parts of Merseyside are suffering from low demand and housing market collapse. As a result, the government has established a housing market renewal pathfinder area with a view to regenerating these areas and attracting inward investment. In Liverpool this area is focused around the inner core, which is located just outside the city centre. Half of the inner core is within the 4% of the worst wards in England and the remainder within the worst 1%. The association has 8,563 properties in the housing market renewal pathfinder area.

With support from Communities and Local Government (CLG) through Gap Funding and a combination of loan finance the association plans to deliver a £400m five year stock improvement programme and programme of backlog repairs.

The association has an ethos of being tenant led. Tenant representatives make up the majority of the board and five area boards. This ensures tenants are at the heart of the association and involved throughout from the boardroom to the doorstep.

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 Revised Regulatory Judgement

The association has sufficient loan facilities to fund its business plan for the next 30 years and unutilised security to raise the additional finance when required. Total loan facilities are £195m and peak debt is forecast to reach £186m in 2012/13. Loan facilities have been secured on favourable terms with £110m of the facility on forward fixes. The association has and is forecasting to continue to meet all of its loan covenants.

The association's business plan is also predicated on receiving £66m of VAT funding from a ten year VAT sharing arrangement with the local authority and £135m of Gap Funding.

The association cleared its pension deficit at transfer, minimising this risk exposure for future years.

The association is complying with expectations on rent influencing and forecasts compliance with the Decent Homes Standard (DHS) by 2013 (an extension to the 2010 deadline was agreed as part of the transfer).

However, in the medium term Liverpool Mutual Homes faces a number of challenges:

- Accommodating the impact of a negative rent increase for 2010/11 and its long term adverse impact on rental income streams.
- RPI only inflation assumptions across all major expenditure headings will be a challenge to achieve, particularly in the medium to long term.
- Delivering a reduction in void losses in line with business plan expectations , from 2.8% to 1.5% by 2012/13.
- Delivering 2.8% efficiency savings in the first six years (much progress has been made in achieving this target over the first 18 months post transfer).
- The remaining four years of the improvement programme must continue to be delivered on time and within business plan assumptions, in order to deliver promises to tenants, to remain within the agreed loan facility limit and to comply with cashflow covenant requirements.
- Managing the re-profiling and funding of the updated 2009 stock condition survey.

Although there is £9m of headroom between the association's peak debt forecast and the total loan facility that it can call upon, a combination of several risk exposures could cause problems for the association in remaining within its business plan parameters. To mitigate the adverse financial impact of these risks the association has set aside £3m of VAT sharing receipts. Also, prudently, it has not included a potential further five years of VAT sharing receipts in its business plan. Furthermore the association has identified two specific funds to tackle a large repairs backlog and to restructure the delivery of the repairs service totalling £6.6m. Finally the association has some scope to amend its rent plan to partially offset the long term effects of negative RPI on rental income, should it choose to do so.

The association's financial performance and business plan forecasts are typical of an early years stock transfer organisation. Key members of the association's executive team have significant experience of monitoring and successfully delivering large scale improvement programmes. A good start has been made in delivering its improvement programme and the association is on track to deliver its promises to tenants. During 2008/09 the association spent £45.5m on improvement programme works and has maximised savings that could be realised from the current low contract prices on offer by accelerating some of the improvement programme. Heating, window and doors programmes are now forecast to complete ahead of schedule. In addition, the association spent £17m on one off set up costs during its first year of operation, including clearing its pension deficit. All such costs were anticipated in the business plan and £15m of loan draw downs went ahead in the year. The financial performance for 2008/09 was better than forecast.

Properly governed – Regulatory Code part 2

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

TSA Revised Regulatory Judgement

The TSA is satisfied the association's governance arrangements meet our requirements in terms of board structure and quality although LMH recognises areas where these can be further enhanced.

The association has developed a five year corporate plan (2008/13) which outlines its

vision, mission and values.

The vision of the board is 'to have pride in our homes and be proud of our neighbourhoods.' This is supported by three corporate goals. 'To create homes, communities and neighbourhoods where:

- People choose to live.
- We will deliver quality services in the knowledge we are providing homes for life.
- We are preserving social housing in Liverpool for future generations.'

An operational corporate plan and individual service plans are prepared to support the five year corporate plan. The plan includes specific focus areas and actions which are championed by both a member of the board and executive management team. Performance against the plan remains at a high level with 51 of the 54 actions already completed with the remaining three being reassessed or in progress.

The association was established with an ethos of being tenant led. Tenant representatives make up the majority of the board membership which includes eight tenants, five independents and two local authority members. At a local level LMH has established area boards which it uses to engage with tenants and manage performance at a local level.

Tenants were also involved in selecting the three housing management providers and re-letting the repairs and maintenance contract.

The association knows the skills and competencies required by the board to govern the business. A programme of continual board development is in place which is facilitated by an independent firm of consultants. This has helped to increase the effectiveness of the board and particularly the area boards.

The association is continually strengthening its governance arrangements including the continual focus on board development and improvement in the management of board business and the setting of agendas.

Over the last 18 months the association has developed and improved its board reporting. A plan is in place to ensure the ethos of risk management is part of both the association's strategic and day-to-day operations. Alongside this steps are being taken to strengthen governance arrangements and focus monitoring and management of key corporate risks. In addition a fraud strategy and fraud response plans have been agreed by the board and audit and risk committee respectively. These are now to be incorporated in staff and board induction programmes.

The board has approved an overall performance improvement strategy which includes the implementation of a competency framework and the use of performance clinics across all service areas. The board receive a quarterly balanced score card of Performance Indicators (PI's) across the association, although further enhancements to this process are being considered. We have discussed with the association the need to understand the reasons for any recurrent underperformance that may occur and remedial action being taken by management so this can be included within the quarterly monitoring report.

The association deals with the TSA in an open and co-operative manner, and is being proactive in addressing issues raised through our ongoing regulatory engagement. To

monitor progress LMH has developed a live regulatory compliance action plan, supported by evidence to justify the conclusions drawn. In preparing this the association recognises that there remain areas where further improvement is required. The association is making good progress in addressing equality and diversity and is developing disability and gender action plans under the single equality scheme.

Properly managed – Service Delivery - Regulatory Code part 3

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

TSA Revised Regulatory Judgement

The TSA is satisfied the association's management arrangements meet our requirements in managing performance and in addressing resident priorities and LMH recognises areas where performance can be further improved.

Following LMH being established in April 2008 overall satisfaction scores have increased from 54% in 2006 to 75.6% in 2009 demonstrating the association is delivering improved services to tenants.

LMH executive team have the experience and track record of delivering previous improvement programmes. Working in partnership with an experienced chair, the executive management team and board has made good progress in delivering the 135 promises made to tenants upon transfer. Of these 96 have already been delivered with the remaining 39 on track. However the association faces many challenges ahead which it recognises will require careful and robust leadership and management.

LMH is working with the City Council to implement the city's housing strategy. This has involved making 80% of void properties available through the city's choice based lettings system to help improve tenants' choice with a view to expanding this to the wider city region. LMH is also helping to tackle anti-social behaviour through the crime and disorder partnership by using its own dedicated safer estates team.

The association has encouraged tenants to help shape the services they receive. Tenants were involved from the start and played a pivotal role including:

- Involvement throughout the whole procurement process.
- Selection of the three contractors to provide housing management services.
- Monitoring performance and re-letting of the repairs and maintenance contract.

Their role has now evolved to ensuring the high standards are maintained through the use of tenant inspection and focus groups.

During 2009 the association prepared its first annual involvement statement looking back over the first 12 months of operations. This included the establishment of a customer involvement team and promotion of opportunities for tenants to become involved. A baseline assessment has been undertaken, now the association will monitor the impact of tenant involvement on services to assess if they are delivering both service improvement and better value for money.

The association has been granted an extension for its stock to meet compliance with

the decent homes standard until 2013. Excellent progress has been made on delivering this, as at August 2009 approximately 54% (1 April 2008: 42%) of the association's stock achieved DHS which is ahead of schedule. The association has accelerated the phasing of the improvement programme to benefit from reduced prices from contractors. Despite financial pressures full compliance with DHS remains on track to be achieved by 2013.

A backlog of repairs was inherited upon transfer from the council. The contractor for the repairs and maintenance service was changed after the first year following poor performance and low tenant satisfaction scores. With a new contractor appointed in April 2009 the association has been able to secure significant cost savings whilst also demonstrating improved performance on timeliness and quality. The association is now focusing on the quality and consistency of the performance data on its repairs service. The association is aware of the need for accurate data before the service can be realistically assessed. However initial indications from the STATUS survey show an overall improvement with satisfaction of the repairs service to 69.6% (2006: 50%). There has also been substantial improvement in performance on gas servicing which forms part of the repairs contract.

The housing management service is provided by three organisations: Pinnacle, Liverpool Housing Trust and Plus Dane. These contracts are in place until 2013 and following an external review the association has recognised a need to enhance the performance management framework by ensuring robust contract monitoring arrangements. Initial performance across these providers has been variable and the association needs to ensure where remedial action is taken there is no detrimental impact on the level of services received by tenants.

During 2009 LMH prepared its first self assessment statement of compliance with regulatory requirements as a satisfactory statement of current performance.

The association has established a continuous improvement strategy to improve value for money and provide a framework for delivering improved services. This framework looks at specific areas of performance across the five areas of the city in which the association operates. This has focused on ensuring systems are free from bureaucracy whilst being robust and have helped improve performance. Voids have reduced to 2.8% (2008: 3.1%). Current performance is in the third quartile and management will need to ensure attention remains focused in order to achieve the desired target of 1.5% by 2012/13. The time taken to re-let properties stands at 65.2 days and is in the lowest 10% performance across the country and remains an area of focus for management. Current tenant arrears have improved to 6.01% in June 2009 (March 2009: 6.98%) and rent collection levels also show improved performance.

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 Liverpool Mutual Homes limited:

- Quarterly meetings with executive team;
- Attendance at board meetings;
- Annual Viability Review conducted in November 2009 based on the 30 year capacity model;
- 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)
- Inspection reports (www.audit-commission.gov.uk)
- Extracts from the Public Register (www.tenantservicesauthority.org)
- Rent information and other key facts and figures (www.rsrsurvey.co.uk and www.dataspring.org.uk)

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. The TSA accepts no liability for the information contained, and third parties must make their own investigations or enquiries.

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.

KEY TO TSA REGULATORY JUDGEMENT STRAPLINES AND EQUIVALENT SUMMARY

VIABILITY

The association meets the expectations set out in the Regulatory Code in terms of financial viability. meets expectations

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. meets expectations but with exposures

The association's financial viability is of concern. concern

The association's financial viability is of serious concern. serious concern

GOVERNANCE:

The governing body gives effective leadership and control, has a wide range of skills and experience and, supported by appropriate governance and executive arrangements, is improving its own performance and that of the organisation. effective leadership

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

The governing body needs to take further action to ensure capable leadership and control of the organisation. further action needed

The governing body does not demonstrate effective control of the organisation. Accordingly the association is in breach of the Regulatory Code. lacks effective control

HOUSING MANAGEMENT AND SERVICE DELIVERY:

The association demonstrates a strong commitment to continuous improvement and to effective and efficient service delivery. Given the context in which it works and the available resources it achieves high quality outcomes. high quality

The association generally meets the standard of service delivery expected given the context in which it works and the available resources. meets expectations

The association's performance in service delivery is below the standard expected given the context in which it works and the available resources. below expectations

The association's performance in service delivery fails to achieve the outcomes specified in the Regulatory Code. fails to meet the Regulatory Code