Homes & Communities Agency

The Social Housing Regulator

HCA Regulatory Judgement on Family Housing Association (Birmingham) Limited – LH0713

June 2013

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The provider

Family Housing Association (Birmingham) Limited (Family) was founded in 1975. It owns and manages more than 2,350 homes. The majority of these are in inner city Birmingham. Family predominantly provides general needs accommodation but has a small number of supported, sheltered, shared ownership and intermediate market rent homes.

Family has one unregistered subsidiary, Cornerstone Commercial Services Limited, a company established to undertake diverse non-grant funded and non-charitable activities. It is currently dormant.

Family had a total turnover of £11m in the year to March 2012 and has approximately 90 employees.

Regulatory Ratings*

- **Properly Governed: G3**

The provider does not meet all of the requirements on governance set out in the Governance and Financial Viability Standard. There are issues of regulatory concern and in agreement with the regulator the provider is working to improve its position.

- **Viable: V2**

The provider meets the requirements on viability set out in the Governance and Financial Viability standard but needs to manage material financial exposures to support continued compliance.

*The regulator's assessment on compliance with the Governance & Financial Viability Standard is expressed via 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 failure of governance or viability to the extent that the regulator is using its statutory powers.

Regulatory Judgement

The regulator's assessment of Family's governance has been downgraded as a consequence of significant problems in its governance and financial management, and in its management of risk which have resulted in a weak strategic planning framework. Family's governance arrangements have not been adequate to ensure sufficient control of the organisation.

Family's financial planning has demonstrated serious failings, including the development and adoption of a corporate plan which it does not have the required resources to deliver. Weaknesses in the board and executive team have contributed to poor strategic planning. The executive has not provided the board with accurate or adequate information to enable it to oversee and control the business. Financial information presented to Family's board has been found to be incorrect. The board has been ineffective in challenging the executive team about the quality of the information it has been receiving and in providing effective challenge of unrealistic assumptions contained in the business plan. The outcome has been the development of a corporate plan which is undeliverable and a resultant lack of strategic focus.

Family's board has not demonstrated effective oversight of the organisation's system of internal control and has failed to ensure appropriate monitoring of key financial indicators including reports on cash flow. The risk management framework is weak and risks identified do not clearly link to the achievement of business objectives. It is apparent that key business and financial risks have not been properly identified, prioritised or controlled, resulting in uncertainty about the delivery of the corporate plan. Known problems relating to charging lower than average rents and the increasing cost of major repairs were not identified as key risks, even after they had started to materialise.

The regulator's assessment of Family's viability remains unchanged from our last published assessment. The latest business plan demonstrates that lender covenants are being met, and finance is available to meet its needs for the next 30 months, albeit Family's underlying financial profile suggests limited capacity to deal with adverse risks materialising. Whilst previous financial management has led to a failure to recognise and address potential weaknesses in Family's business plan, it is now working with the regulator to address these issues, and has recently carried out a comprehensive, externally-validated, review of its financial position, the findings of which are being finalised and will inform its future strategic direction. The regulator is satisfied with the actions that Family is taking to respond to the issues and that it is taking appropriate steps to improve its position and is communicating appropriately with us.