Homes & Communities Agency

The Social Housing Regulator

HCA Regulatory Judgement on Heantun Housing Association Limited – L1669

March 2014

The provider

Heantun Housing Association Limited (Heantun) owns and manages around 850 general needs homes, 340 supported and sheltered homes and 30 shared ownership/rent to homebuy homes. A high proportion of its stock is in the form of supported housing and the provider has significant experience of working with a disparate client base including older people, young people, ex-offenders, people with learning difficulties and people with mental health issues.

Heantun is based in Bilston, which is located just outside Wolverhampton. The majority of the provider's properties are in Wolverhampton, but it is also active in Walsall, Dudley, Sandwell, Cannock and South Staffordshire.

Heantun has two unregistered subsidiaries undertaking non-social housing activities. These are Heantun Care Housing Association Limited. (HCHAL) and New Bilston Limited. The main areas of operation for HCHAL are nursing care for older people, community based respite care and care services, and nursery care. New Bilston is focused on supporting social regeneration of Bilston and its surrounding area.

Heantun's turnover for 2012/13 was £13.9m and it employs about 230 staff.

Heantun is a member of the Spectrum Development Consortium which is an approved development partner of the Homes and Communities Agency. Heantun expects to deliver 29 new affordable homes as part of the 2011-15 Affordable Homes Programme.

Heantun's board has been reviewing its future strategy since 2012 and it has agreed to join a group structure with another provider. This is currently in progress with a view to being completed by Spring 2014.

Reason for publication: Viability downgrade.

Regulatory Ratings

- **Properly Governed: G2**

The provider meets 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.

- **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 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 failure of governance or viability to the extent that the regulator is using its statutory powers.

Regulatory Judgement

This regulatory judgement downgrades our previous published assessment of Heantun's viability.

Some of the areas highlighted in our assessment of viability, outlined below, indicate that Heantun's financial governance arrangements and internal controls require improvement.

Based on evidence gained from contact with the executive team, and a review of the latest financial forecasts, the regulator has assurance that the revised financial plans are consistent with, and support, Heantun's financial strategy. Heantun has sufficient funding in place to meet its current development commitments and is forecast to continue to meet its financial covenants under a range of adverse scenarios.

However, the regulator has identified two specific exposures that could impact on Heantun's longer-term viability.

Heantun reported losses by HCHAL, and reduced margins from operating activities in 2012/13. Heantun is taking action to address these problems with a recovery plan. While there are indications that the benefits of the recovery plan are starting to be realised, there is not yet sufficient evidence of the recovery plan's ability to deliver sustained improvements over the longer term, given weakness in the systems of internal control and Heantun's ability to manage key exposures.

The second exposure relates to weaknesses in risk and financial management representative of a weak internal control framework. Concerns regarding the effectiveness of Heantun's management accounting and risk management arrangements were identified in 2013. These issues were responsible for weakened internal controls and poor management information, with inaccuracies in data submitted to the regulator. This impeded financial decision making and obscured the deteriorating position of HCHAL in 2013. Heantun has commenced work to improve its internal control framework. However, the effectiveness of these measures has yet to be embedded.

Based on evidence gained from contact with the board and executive and a review of board papers and other published documentation, the regulator has also concluded that Heantun's governance arrangements are adequate but that it needs to improve some aspects to maintain compliance.

Heantun has failed to address the requirements of the Value for Money standard in a timely and transparent way. This, in turn, has raised some regulatory concern about the effectiveness of aspects of its internal controls. Heantun needs to improve the way that it demonstrates it is meeting the requirements of the Value for Money standard to support continued compliance.

The Value for Money standard sets a specific expectation that providers' self-assessments should enable stakeholders to understand the return on assets measured against the organisation's objectives; set out the absolute and comparative costs of delivering specific services; and evidence the value for money gains that have and will be made and how these have and will be realised over time.

Heantun has not published a robust self-assessment which sets out in a way that is transparent and accessible to stakeholders how it is achieving value for money in delivering its purpose and objectives. This means the regulator has only limited assurance that Heantun has a comprehensive and strategic approach to achieving value for money in meeting its organisational objectives.