



Regulator of
Social Housing

Regulatory Judgement on Equity Housing Group Limited L1229

July 2018

Publication Details

Reason for publication

Viability regrade and governance downgrade

Regulatory process

In Depth Assessment

Please see the definitions in Annex 1 for more detail

Governance

G2 (Compliant)

The provider meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance.

Viability

V2 (Compliant)

The provider meets our viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

Key to grades

G1 / V1 Compliant

G2 / V2 Compliant

G3 / V3 Non-compliant and intensive regulatory engagement.

G4 / V4 Non-compliant, serious failures leading to either intensive regulatory engagement or the use of enforcement powers.

Provider Details

Origins

Equity Housing Group Limited (Equity) is a charitable co-operative and community benefit society and registered provider.

Registered Entities

Equity Housing Group is the only registered entity.

Unregistered Entities

Equity has one unregistered subsidiary, Equity Enterprises, which manages the group's estate agency and coffee shop.

Geographic Spread and Scale

Equity has approximately 4,600 homes in ownership across 25 local authority areas, mainly operating throughout Greater Manchester, Derbyshire and Yorkshire. It has 2,100 general needs homes and 2,500 homes of other tenure types including low cost home ownership, sheltered, supported and leasehold housing.

Staffing and Turnover

Equity's turnover for the year ending 31st March 2018 was £24.5m. It employs approximately 116 staff.

Development

Equity has an intended development programme of 860 units over the next five years.

Regulatory Judgement

This judgement downgrades the regulator's previous assessment of Equity's compliance with the governance element of the Governance and Financial Viability (G&FV) standard to G2, and regrades its viability assessment to V2.

Equity continues to meet the requirements on governance set out in the G&FV standard. However, following an IDA, we have concluded that it needs to improve aspects of its governance arrangements to support continued compliance.

Over the past twelve months Equity has refreshed and strengthened its executive management team and identified areas for improvement which it needs to address. On the basis of the IDA we have concluded that further work is required to demonstrate an effective internal control framework, adherence to relevant legislative and regulatory requirements, and that the board is managing its affairs effectively.

The board has recently approved a new corporate plan for 2018-23 and updated Equity's risk strategy and framework to support its delivery. Equity now needs to fully embed revised financial and compliance controls, aligned to its latest plans, to evidence these are operating appropriately.

The overall effectiveness with which Equity manages its affairs requires improvement. There is a lack of clarity regarding the respective roles and responsibilities of the board and its committees. This has resulted in duplication, and also, in some instances, insufficient board attention on matters which have been over-delegated. It was not clear that the board had adequately addressed past weaknesses in establishing clear accountability throughout the structure.

We have concluded that the board's strategic focus has been diminished due to its continued involvement in operational issues following the establishment of a new executive team. The division of responsibility between the executive and the board needs to be re-examined and firmly established.

The board has recently received the results of an independent review of Equity's governance arrangements and has started to make improvements which the regulator will review in due course.

The regulator has assurance that Equity complies with the financial viability element of the G&FV standard. Equity's financial plans are consistent with, and support, its financial strategy and it is forecasting to meet its financial covenants under a reasonable range of scenarios.

Equity's latest financial plan indicates increases in its cost base and development ambitions. The early years of the plan show reduced financial performance and covenant headroom, which leaves Equity vulnerable to the crystallisation of downside risks in this period.

Equity needs to manage material risk exposures. There is a continuing exposure to the shared ownership housing market, and the plan now incorporates open market sales for the first time. In the first two years of the plan there is a reliance on sales surpluses to meet interest costs. Equity also anticipates that pension costs will rise from the level currently assumed in the plan, placing further pressure on loan covenant headroom.

Annex 1: Definitions of Regulatory Processes

In Depth Assessment (IDA)

An IDA is a bespoke assessment of a provider's viability and governance, including its approach to value for money. It involves on-site work and considers in detail a provider's ability to meet its financial obligations and the effectiveness of its governance structures and processes.

Stability Checks

Based primarily on information supplied through regulatory returns, a stability check is an annual review of a provider's financial position and its latest business plan. The review is focused on determining if there is evidence to indicate a provider's current judgements merit reconsideration.

Reactive Engagement

Reactive engagement is unplanned work which is triggered by new intelligence or a developing situation which may have implications for a provider's current regulatory judgement.

Stability Checks and Reactive Engagement

In some cases, we will publish narrative regulatory judgements which combine intelligence gained from both Stability Checks and Reactive Engagement.

Further Information

For further details about these processes, please see 'Regulating the Standards' on <https://www.gov.uk/social-housing-regulation-england>.

The regulation of social housing is the responsibility of the Regulation Committee, a statutory committee of the Homes and Communities Agency (HCA).

References in any enactment or instrument to the Regulator of Social Housing are references to the HCA acting through the Regulation Committee.

Homes England is the trading name of the HCA's non-regulation functions.