



Regulator of  
Social Housing

## **Regulatory Judgement on Knowsley Housing Trust LH4343**

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**August 2018**

## Publication Details

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### Reason for publication

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Governance downgrade

### Regulatory process

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In Depth Assessment and Reactive Engagement

*Please see the definitions in Annex 1 for more detail*

### Governance

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#### **G3 (Non-compliant)**

The provider does not meet our governance requirements. There are issues of serious regulatory concern and in agreement with us the provider is working to improve its position.

### Viability

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#### **V1 (Compliant)**

The provider meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios.

## Key to grades

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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.

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## Provider Details

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### Origins

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Knowsley Housing Trust (KHT) is a company limited by guarantee and a registered charity. It was formed in 2002 to take transfer of the housing stock from Knowsley Metropolitan Borough Council. Its principal activity is the provision and management of social housing.

### Registered Entities

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KHT is the only registered entity in the group.

### Unregistered Entities

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KHT is a subsidiary of First Ark Limited Group. First Ark Group is a social impact group intended to bring together private, public, social and charitable enterprises to drive growth in Knowsley and the North West. Alongside KHT, First Ark has three other subsidiaries:

- Vivark Limited – a commercial organisation which provides repairs and maintenance services to KHT as well as making returns from commercial activities.
- One Ark Limited – a charitable subsidiary focused on increasing local social and economic activity.
- First Ark Social Investment Limited – a company limited by shares to manage the group's social investment activity.

KHT has two unregistered subsidiaries:

- KHT Services Limited – a company limited by shares. KHTS has been inactive since October 2012 when responsibility for repairs and maintenance were transferred to Vivark.
- KHTS Development Limited – a company limited by shares. KHTS Development Limited was incorporated in June 2016 to facilitate the development of homes on behalf of KHT.

## Geographic Spread and Scale

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KHT owns and manages 13,000 mainly general needs homes. It operates in the north west of England in four local authorities.

## Staffing and Turnover

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KHT reported a turnover of £64m for the year ending March 2017 and employs the full-time equivalent of 108 staff.

## Development

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KHT plans to develop 613 homes over the next six years.

## **Regulatory Judgement**

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This judgement downgrades the regulator's previously published judgement of KHT's governance to a non-compliant G3 grade. This means that there are issues of serious regulatory concern but that the provider is working with us to address them.

Following an In-Depth Assessment (IDA) the regulator has concluded it lacks assurance that the board of KHT has been managing its affairs with an appropriate degree of skill, diligence, effectiveness, prudence and foresight. The regulator has insufficient assurance that its governance, risk management and internal control frameworks have been effective.

The regulator published a regulatory notice in June 2018 confirming its view that KHT's management of statutory health and safety compliance had breached the requirements of the Home Standard and that that led to the potential for serious detriment to tenants. Whilst the immediate issues have been resolved, more detailed investigations commissioned by KHT into the underlying causes of these failures have demonstrated weaknesses in the operation of its control and assurance framework.

Evidence gathered by the regulator during the course of its IDA confirmed weaknesses in governance, and in the effectiveness of board oversight and scrutiny including incidents of inadequate reporting. It also found that the KHT board did not have sufficient oversight of activities taken in other parts of the group and as a result, KHT was unable to demonstrate that key risks were effectively managed. It is apparent that services provided by group companies were a contributing factor to the failings, but KHT did not exercise its rights as set out in the intra-group agreement when services fell below the required levels.

During our engagement, KHT has demonstrated its commitment to putting things right, as has the unregistered parent First Ark, and it has been open and transparent with the regulator. The board is working with external support to carry out independent reviews into governance and develop a comprehensive recovery plan. It has appointed new board members to increase board capacity during this time. KHT has also changed its board structures and moved to a skills based board, and there have been changes to the leadership team including the appointment of a new group chief executive.

The regulator's assessment of KHT's compliance with the financial viability element of the Governance and Financial Viability Standard is unchanged. Based on evidence gained from our IDA, the regulator has assurance that KHT's financial plans are consistent with, and support, its financial strategy. The provider has an adequately funded business plan, sufficient security in place, and is forecast to continue to meet its financial covenants under a wide range of adverse scenarios.

## Annex 1: Definitions of Regulatory Processes

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### In Depth Assessment (IDA)

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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

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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

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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

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

### Further Information

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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.*