



Regulator of  
Social Housing

## Regulatory Judgement on Connexus Housing Limited L4494

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Including the following registered entities:

- Herefordshire Housing Limited LH4353
  - Meres and Mosses Housing Association L4493
  - South Shropshire Housing Association LH3943
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**October 2019**

## Publication Details

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### Reason for publication

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Changed basis for Viability and Governance grades

### 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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#### **G2 (Compliant)**

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

### Viability

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#### **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

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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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The provider was established in 2007 as the non-stock holding group parent of subsidiaries South Shropshire Housing Association Limited (SSHA) and Meres and Mosses Housing Association (MMHA). Following a merger with Herefordshire Housing Limited (HHL) in July 2017, the group was re-named Connexus Housing Limited. It is a charitable co-operative and community benefit society. Its principal activities are the management and development of social housing and related services and support.

### Registered Entities

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The group's three wholly-owned registered provider subsidiaries HHL, MMHA and SSHA were established through local authority stock transfers.

### Unregistered Entities

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There are eight unregistered subsidiaries within the group:

- Enterprise4 Limited provides a range of maintenance and housing related services to residents, non-residents and commercial companies;
- Floreat Development Limited designs and builds affordable homes for the registered providers in the group;
- Floreat Living Limited builds homes for open market sale;
- Herefordshire Capital plc is a vehicle which arranges finance for HHL;
- Independence Trust provides a range of services that support people's wellbeing;
- Rise Partnership Developments Limited provides design and build services to the group under a development agreement;
- Shropshire Housing Treasury Limited is a vehicle which arranges finance for the group; and
- Total Response Limited provides repairs, maintenance and other property services to SSHA, MMHA and external customers.

### Geographic Spread and Scale

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The group owns about 10,000 homes located in Herefordshire, Shropshire, and the Marches border area of England and Wales.

## Staffing and Turnover

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The group employed 546 full-time equivalent staff, and reported turnover of around £56.7m in 2018/19.

## Development

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The group strategy is to develop around 1,400 homes across a range of tenures over the next four years.

## **Regulatory Judgement**

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This judgement, which has been produced following an In Depth Assessment (IDA) and reactive work, confirms Connexus's existing G2/V2 grades.

Our previous narrative regulatory judgement, published in November 2018, downgraded Connexus's governance judgement to G2. This was due to historical weaknesses relating to risk management, oversight and control of the development programme, internal controls around procurement and probity, and the implementation of internal audit recommendations.

On the basis of the IDA, the regulator has concluded that Connexus meets our expectations on governance but still needs to improve some aspects of its arrangements to support continued compliance.

Delivery of the action plan drawn up in response to the G2 governance downgrade has resulted in some improvements. This includes enhancing leadership capacity and capability at both executive and board. However, the period of transition resulting from these changes has impacted negatively on progress with delivery of the post-merger integration plan and oversight of key day-to-day responsibilities, including landlord health and safety.

The board lacks sufficient oversight of landlord health and safety compliance with weaknesses in systems, processes and data. We have found Connexus to be in breach of the Home Standard and that it has exposed its tenants to risk of serious detriment as a result. This finding is set out in a separate Regulatory Notice.

We have concluded on the basis of the IDA that Connexus's approach to stress testing is not fully developed. Stress testing has considered the key risks to which the provider is exposed, however it is only undertaken at a group level and fails to understand where entity risks may crystallise and impact on the wider group. There are also gaps in the testing of cash and security with insufficient assurance of board ownership and challenge. Clear early warning indicators are not in place or monitored by board, and further work is required on mitigation strategies.

Connexus's internal control framework is improving but there remains more to do. We have assurance that the board has made progress on addressing outstanding audit recommendations and enhancing and harmonising key processes and controls. However, we require further evidence that these improvements are sufficiently embedded and operating effectively across the group, given their recent introduction. A limited assurance annual report from the internal auditors highlights that further work is still required.

Connexus has strengthened its leadership team. This follows an independently facilitated skills assessment and the appointment of a new chief executive and

a refreshed executive management team. In addition, the board has been refreshed with the appointment of six new members in September 2019.

As a result of the IDA, the regulator has concluded that Connexus has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

The business plan is fully funded until 2021. Compliance with funders' covenants is forecast throughout the plan, and there is sufficient access to liquidity with adequate security available to support future borrowing requirements. However, there remain material risks which Connexus needs to manage. The board has reduced exposure to non-social housing activity but delivery of the sales pipeline still remains a risk to be managed with a material impact on the group's key financial metrics.

## 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.rsh.gov.uk>