

# **HCA Regulatory Judgement on Cestria Community Housing Association – L4514**

**December 2012**

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## The Provider

Cestria Community Housing Association (Cestria) is a stock transfer organisation, set up in 2008 to take the transfer of 4,200 properties from the former Chester-le-Street District Council. Its core business is the provision of general needs housing and housing for older people.

The main reason for the transfer was to facilitate funding of stock investment so that properties could be brought into compliance with the Decent Homes Standard. As the valuation of the stock at transfer was negative, Cestria receives government gap funding.

Appropriately for a recent stock transfer organisation, Cestria's strategic focus since registration has been on the delivery of its stock improvement programme. Consequently Cestria is on track to be 100% compliant with the Decent Homes Standard before its December 2013 deadline. As the improvement programme nears completion, the organisation has engaged with stakeholders to renew its strategic vision and priorities and update its business plan. While continuing to focus on service delivery, Cestria's priorities now also encompass a prudent approach to growing its business.

Cestria operates within one local authority area (Durham County Council). Its total turnover in the year to 31 March 2012 was £14.5m. It employs the equivalent of 146 full time staff.

Cestria is a Homes and Communities Agency investment partner and is delivering 47 new homes for rent under the Affordable Homes Programme (2011-15).

## Regulatory Ratings\*

- **Properly Governed: G1**

The provider meets the requirements on governance set out in the Governance and Financial Viability Standard.

- **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 and 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**

The regulator's assessment of Cestria's governance has been upgraded. The previous regulatory judgement for Cestria, which was published in December 2010, identified a number of weaknesses in governance, including a lack of accountability, concerns about the management of some operational risks and failure to adopt an appropriate code of governance.

In April 2011 Cestria undertook a governance review focused on the weaknesses identified by the regulator and subsequently its board has implemented all of the review recommendations. Cestria is now compliant with its chosen governance code. Board size has been reduced from 15 to 12, there has been an increase in the proportion of independent members of the board, remuneration has been introduced, a new chair appointed and additional board members with financial and development expertise have been recruited. A governance training programme for all board members has been carried out. Previously identified imbalances in responsibilities within the executive team have also been addressed.

Regulatory engagement with the organisation has provided assurance that these measures taken by Cestria to improve the effectiveness of the board and re-balance responsibilities within the executive team have addressed the weaknesses previously identified, and that governance arrangements are now sufficient to adequately control the organisation to enable it to continue meeting its objectives.

The regulator's assessment of Cestria's financial viability remains unchanged. Cestria has a fully funded business plan which is supported by a loan facility of £45m and £39m of government gap funding agreed at transfer. Financial analysis carried out as part of our regulatory engagement with Cestria provides assurance that the viability of the business plan would be seriously affected only should this gap funding be reduced. Cestria seeks to mitigate this risk by monitoring in a systematic way the delivery of the key promises set out in its transfer agreement.