Review of social housing regulation 2024: Part one – governance and financial viability

FEBRUARY 2025

Roger Jarman

Introduction

In April last year the role of the Regulator of Social Housing (RSH) was significantly enhanced, as the agency introduced a new framework for consumer regulation set out in the Social Housing (Regulation) Act 2023[1]. Nevertheless, the previous focus on the governance and financial viability of housing associations (or private registered providers (PRPs)) continued as before.

So, as in previous years, HQN is producing this review of RSH activities in the calendar year 2024, with a focus on its evaluation of PRP compliance with the Regulator's economic standards. The Regulator does not have the remit to monitor the governance or financial viability of local authorities (LAs), because they are democratically accountable and operate in a financial environment overseen by central government.

This is part one of our review. Part two focuses on the RSH's role on evaluating the compliance of all registered providers (including LAs) with the new consumer standards applicable from April 2024.

In October 2024 the Regulator published its annual sector risk profile. It set out that the risks to the viability of PRPs had intensified over the previous 12 months and that their financial performance continued to weaken. This was driven by internal and external pressures, including record and increasing spending on existing homes and sustained higher interest rates raising the cost of debt.

The Regulator recognises that leaders in the sector face increasingly difficult decisions as they navigate the need to carry out much-needed improvements to existing homes and deliver thousands of new social homes, with reduced financial capacity. The RSH makes clear that PRP boards will need real skill and judgement, underpinned by the right information and the willingness to provide effective challenge, if their organisations are to continue delivering for current and future tenants[2].

The table below sets out the definitions adopted by the RSH for the various grades that PRPs can secure against the Regulator's economic standards.

Table one

Governance	Financial viability
G1 – our judgement is that the landlord meets our governance requirements	**V1 –** our judgement is that the landlord meets our viability requirements and has the financial capacity to deal with a wide range of adverse scenarios

[1] https://www.legislation.gov.uk/ukpga/2023/36
[2] https://www.gov.uk/government/publications/sector-risk-profile-2024

Governance	Financial viability
G2 – our judgement is that the landlord meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance	**V2 –** our judgement is that the landlord 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
G3 – our judgement is that the landlord does not meet our governance requirements. There are issues of serious regulatory concern and in agreement with us the landlord is working to improve its position	**V3 –** our judgement is that the landlord does not meet our viability requirements. There are issues of serious regulatory concern and in agreement with us the landlord is working to improve its position
G4 – our judgement is that the landlord does not meet our governance requirements. There are issues of serious regulatory concern and the landlord is subject to regulatory intervention or enforcement action	**V4 –** our judgement is that the landlord does not meet our viability requirements. There are issues of serious regulatory concern and the landlord is subject to regulatory intervention or enforcement action

Judgement calls

During 2024 the Regulator published 157 regulatory judgements **covering the economic standards only**. The split of these and the comparison with the three previous years is shown below. In the previous three years, some of the judgements related to the performance of LAs against the old set of consumer standards, which existed up until April last year. This means that there can be no direct read across between the figures for the years 2021 to 2023 and the 2024 figure[3].

Since April 2024 the Regulator has stopped publishing strapline regulatory judgements, regulatory notices and gradings under review. The spreadsheet with judgements published by the RSH since last April contains 'narrative regulatory judgements' only. But 'interim regulatory judgements' can still be published where appropriate[4].

[3] https://www.gov.uk/government/publications/regulatory-judgements-and-regulatory-notices
[4] https://www.gov.uk/guidance/how-we-approach-regulatory-judgements-and-gradings

Table two

	2024	2023	2022	2021	Definition
Strapline regulatory judgement	12*	115	47	154	No change in previous grading
Narrative regulatory judgements	145	45	29	19	More detailed report setting out why a grading has changed
Regulatory notice	2*	16	15	22	Regulatory notices are briefer than narrative RJs and are either: • Regulatory notice (economic standards) for providers with fewer than 1,000 homes. In some cases these are also published for larger providers • Regulatory notice (consumer standards) for all providers in breach of a consumer standard where there is actual or potential serious harm to tenants
Interim regulatory judgements	0	3	0	2	Used where two or more providers are merging, based on previous separate RJs
Grading under review	0	0	0	1	Where a matter is being investigated and a re-assessment of the economic standards is likely
Total RJs	**159**	**179**	**91**	**198**	

**These judgements were allocated to PRPs between January and March 2024; the two regulatory notices were assigned to two LAs – Kirklees Metropolitan Borough Council and the London Borough of Lewisham – for failing to meet the consumer standards then in place*

The tables below set out the type of engagement the Regulator had with PRPs where regulatory judgements were published in 2024. There are two tables covering, respectively, the first quarter of the year and then the other three quarters of 2024. This is because the nature of engagement with PRPs changed in April, when statutory inspections began and other elements of the regulatory framework were amended.

Table three

Type of engagement with PRPs: January-March 2024	Number
In-depth assessment	15
Reactive engagement	3*
Stability check	10
Stability check and responsive engagement	9
Total	**37**

**Two of these cases involve LAs that did not meet the Regulator's consumer standards (see footnote to table two)*

Table four

Type of engagement with PRPs: April-December 2024	Number
Inspection	26
Responsive engagement	3
Responsive engagement and inspection	1
Stability check	85
Stability check and responsive engagement	7
Total	**122**

PRP gradings against the economic standards: 2021-2024

The breakdown of grades awarded to larger PRPs (with over 1,000 properties) was as follows.

Table five

Grade	2024	2023	2022	2021
G1 V1	57	59	28	113
G1 V2	79	78	36	43
G2 V1	1	0	6	8
G2 V2	17	20	6	12
G2 V3	0	0	0	0
G3 V1	0	1	0	0
G3 V2	2*	1	3	3
G3 V3	1**	5	2	1
G4 V3	0	0	0	0
G4 V4	0	0	1	0
Total	**157*** **	**164**** **	**79**	**180**

**Notting Hill Genesis and A2Dominion*

***Octavia Housing*

****This figure is less than the number of regulatory judgements overall as the 159 total includes the two LAs that did not meet the consumer standards in the first quarter of 2024; the focus in this review is on the performance of PRPs against the RSH's economic standards*

*****This figure is less than the equivalent figure in table two because not all RJs result in a G/V rating*

Changes in governance gradings

Looking at the changes in governance gradings over the period March to December 2024, 106 PRPs subject to assessments by the Regulator had no changes in their gradings. Of the others, eight were downgraded, six were upgraded, one received a first grading and one was graded on previous assessment.

Seven providers were downgraded from G1 to G2. These were:

- Bolton at Home Ltd
- Broadacres HA
- Calico
- Islington and Shoreditch HA
- Moat Homes
- Phoenix Community HA
- Plus Dane Housing.

Additionally, Notting Hill Genesis was downgraded from G2 to G3 which is non-compliant.

Willow Tree Housing Partnership was assessed for the first time and secured a G2 rating.

There were six PRPs that achieved upgrades for their governance scores taking them to G1 status. These were:

- Habinteg HA
- Incommunities Ltd
- Salvation Army HA
- Southern Housing
- YMCA St Paul's Group
- Your Housing Group Ltd.

Octavia Housing was allocated a G3 grading 'based on a previous assessment'.

Changes in viability gradings

Focussing on changes in viability gradings in the same period (March to December 2024), the data tells us that out of the 122 PRPs that had gradings for viability allocated, 114 saw their gradings remained unchanged (following assessment). Therefore, eight PRPs had their gradings changed following assessments by the Regulator. Just one provider's grading improved from V2 to V1 – Incommunities Ltd. Willow Tree Housing Partnership was allocated its first grading (V2).

Therefore, six PRPs saw their viability gradings fall from V1 to V2. These providers were:

- Arawak Walton HA
- Cobalt Housing
- Gand Union Housing Group
- Moat Homes
- NSAH (Alliance Homes) Ltd.

Key points

- The number of PRPs achieving the top G1/V1 grading remained largely unchanged between 2023 (59) and 2024 (57)
- Similarly the number of organisations achieving the G1/V2 grading remained basically the same over the two years – 78 in 2023 against 79 in 2024
- Overwhelmingly PRPs subject to regulatory oversight in 2024 were compliant with the Regulator's economic standards – 98% or 154 out of the 157 for which regulatory judgements were allotted
- In 2023 five PRPs were judged to have failed to meet the Regulator's viability test. Seven organisations (including the five that did not meet the viability test) did not meet the RSH governance standards
- In 2024 three PRPs did not meet the governance standard (they had G3 ratings). One of these three also failed the financial viability test – the only PRP to be judged in 2024 to have a V3 grading or worse.

Notable cases

Given that the sector risk profile points to increasing challenges to the financial viability of PRPs, it is perhaps surprising that in 2024 only one provider was judged as non-compliant with the Regulator's standards on viability.

Three providers were judged as failing the Regulator's governance standards. All three had G3 ratings. One of these providers (Octavia Housing) was non-compliant with both parts of the economic standard – its governance and financial viability ratings were G3 and V3 respectively. All three providers are London-based.

Below we summarise the judgements for the three PRPs, where non-compliance was identified[5].

Octavia Housing, G3 V3, judgement published on 9 July 2024

Governance

Based on the evidence gained from the Regulator's responsive engagement in 2023, which was set out in the regulatory judgement published on 6 September 2023, Octavia's governance grade was judged as non-complaint (G3).

During the 2022/23 financial year, Octavia informed the Regulator that it had significantly underperformed against budget, creating a need to implement a substantial in-year savings programme and initiate covenant waiver negotiations.

RSH investigations identified that the board had not adequately considered the financial implications when taking on new liabilities or ensured appropriate monitoring of the risk thereafter. The Regulator also lacked assurance that Octavia's finance systems and resources were adequate to ensure its plans were monitored and accurately reported. Despite attempts to address this over a period of time, Octavia had been unable to make and sustain the changes required. This had led to poor quality and untimely financial data being produced and unrealistic budgets being set. This had adversely affected the quality of Octavia's regulatory returns.

Therefore, the RSH judged, the board of Octavia had not been managing its affairs with an appropriate degree of skill, diligence, prudence and foresight.

Viability

Based on the evidence gained from the responsive engagement in 2023, Octavia's financial viability was deemed non-complaint (V3) by the RSH.

[5] https://www.gov.uk/government/collections/regulatory-judgements-a-to-z-list-of-landlords

Octavia's financial position was described as weak and required close and effective management. Since 2020/21 business plans had been built on the assumption that a significant efficiency savings programme would be delivered over the period 2020-2025. However, progress in delivering that target had been slow.

The Regulator lacked assurance that Octavia had a robust financial plan. The provider's financial performance had been significantly worse than budget for the previous two financial years. This had led to the implementation of reactive non-permanent in-year savings programmes in those years. In addition, Octavia did not have an approved mitigation plan in place from which it could select and implement the substantial savings required to maintain covenant compliance for 2022/23.

Octavia continued to be exposed to material risks and although there was no immediate solvency issue, it had adapted its latest business plan to maintain its viability, following an external appraisal of the business at the beginning of 2023 in response to these challenges. It was progressing key actions, including disposals, resizing and temporarily pausing new commitments relating to its development programme.

Octavia's business plan also required a substantial programme of permanent savings and material receipts from the sale of high value housing assets. Given Octavia's poor record of delivering against plans, the Regulator did not have the assurance that the plan would be delivered to ensure long term financial viability.

A2Dominion, G3 V2, judgement published on 3 January 2024

Governance – G3

Overall, the Regulator lacked assurance that A2Dominion had an appropriate, robust and prudent business planning, risk and control framework and that it had adequately managed and addressed key risks. In addition, the RSH lacked assurance that A2Dominion had managed its affairs with an appropriate degree of diligence, prudence and foresight.

The Regulator recognised that A2Dominion had implemented a number of changes to its group structure, equity holding and intragroup charging. However, investigations by the RSH had identified that the board had not adequately managed its financial position in a timely manner nor with the rigour expected.

A2Dominion's risk management, internal controls and assurance framework was not sufficiently robust to drive the board to identify and manage all its key risks. As a result, risks had crystalised over a range of areas that had not been addressed.

The Regulator lacked assurance that A2Dominion's data was robust and that systems and processes were adequate to ensure its plans and other key information were monitored and accurately reported. Despite attempts to address this over a significant period of time, A2Dominion had not been able to deliver the changes required. This had led to poor quality data and flawed reporting to the board.

Notting Hill Genesis, G3 V2, judgement published on 27 November 2024

Governance – G3

Notting Hill Genesis (NHG) was the first provider to be graded as non-compliant with the Regulator's' governance standard following an inspection (rather than an in-depth assessment (IDA)).

The Regulator concluded that there was insufficient evidence that NHG had an appropriate and robust business planning, risk and control framework that allowed it to adequately manage and address risks. Consequently, there were issues in a range of areas that had resulted in poor outcomes for tenants.

This had been recognised by NHG and the provider had demonstrated that it was improving its approach to managing risks and was taking steps to address identified weaknesses. However, the range of issues that had been identified was challenging and meant that the scale of improvement needed was significant. While NHG continued to respond to a number of pressing issues, more actions were needed to ensure the provider delivered change that would lead to sustained improvement at an appropriate pace.

The Regulator recognised that NHG had identified that improvements were needed to its risk management framework and this work was underway. Once completed and fully implemented this would support the board to evidence that it had sufficient oversight of the strategic risks faced.

The RSH found that there was some evidence of NHG's board providing oversight of landlord health and safety compliance. However, the current level of oversight was limited and required improvement to be effective. This was due to the uneven balance of reporting between committees and the board and a reliance on exception reporting. The delegation of health and safety risks between three different committees was not effectively managed, resulting in the board not having comprehensive assurance on the health and safety of tenants in their homes. This approach did not provide the board with assurance over NHG's compliance position. In particular there was evidence that findings from internal audits and the reporting of the compliance position for third party-managed buildings had not previously been overseen by the board.

Note here that the Regulator had sought to call out a PRP for failing to oversee sufficiently its function delivering services to tenants. As the new consumer regulation framework matures, this will no doubt become more common.

Additionally, NHG had identified that improvement was needed in its financial governance and controls and while changes had been implemented there was a need to continue this improvement alongside NHG's other challenges and priorities.

NHG's board had set and was leading the overall strategic direction of the organisation and received regular reports enabling it to monitor oversight of its delivery against strategic performance. Stress testing and mitigation plans were aligned to the strategic risk register and stated risk appetite and the Regulator saw evidence of the board taking ownership of this.

The RSH judged that further work was required to review the mix of skills on the board to align with strategic priorities. NHG had a governance review planned and the Regulator noted that its officers would work with NHG to ensure the scope of the review included a review of the board's skills and its effectiveness.

Conclusions

In spite of the new focus on consumer regulation, as you would expect the RSH still maintained its oversight of the performance of PRPs against the Regulator's economic standards.

Compliance with the standards remained high. Only three providers were judged as non-compliant with the economic standards – Octavia Housing, A2Dominion and Notting Hill Genesis.

Last year we noted that several providers that were non-compliant with the economic standards had been subject to, in effect, 'rescue mergers'.

Two of the PRPs judged non-compliant in 2024 were large organisations. A2Domnion has 38,000 homes in management, while NHG owns over 67,000 properties. Securing mergers to address the problems confronted by these providers would be problematic. Instead, improvement plans are in place that the Regulator – and, of course, the providers themselves – hopes will address the governance issues that both organisations face. We can expect to see further regulatory judgements published by the RSH over the next period as it monitors the performance of both providers against the economic standards.

The much smaller Octavia Housing (5,000 homes) did enter a merger arrangement late last year, in part to address its governance and financial problems[6]. If the current economic headwinds continue in 2025, we may yet see more mergers of this type taking place.

PRPs face significant challenges going forward. There is the need to maintain existing stock while also working with government to achieve its 1.5m housebuilding target during this Parliament. Some providers also need to carry out remedial work to stock that has dangerous cladding. Furthermore, all providers will need to gear up to meet the new Decent Homes Standard, expected to be introduced during 2025. The new standard will undoubtedly include commitments to improve energy efficiency in the social housing sector.

The spending commitments associated with these objectives will hopefully be underpinned by a rent settlement that will enable providers to increase rents by CPI plus 1%. PRPs would also welcome a fall in interest rates, although given the state of the public finances this is more difficult to predict.

[6] https://www.octaviahousing.org.uk/news-events/news/608-abri-completes-partnership-with-octavia

With consumer standards scored in a similar way to economic standards since April 2024, there is the opportunity to assess the governance ratings of PRPs alongside their consumer gradings. HQN will attempt to chart the relationship between governance and consumer gradings for PRPs in future. This starts in part two of the review of RSH regulatory activity in 2024 (coming soon).

About the author

Roger Jarman is an associate with the Housing Quality Network where he provides consultancy services, leads training programmes and writes on housing regulation and other matters. He is also a non-executive director of two housing organisations. From 1991 until 1999, he was Head of Housing Management at the Housing Corporation and then from 1999 until 2011 he was Head of Housing at the Audit Commission, overseeing the 1,400 housing inspections undertaken by the Commission during that period. He was a member of the team that produced the Cave Review of social housing regulation in 2007. He is leading a range of training and briefing sessions on the new regulatory framework.

Fast, practical guidance on everything to do with housing

HQN provides high-quality advice, tailored support and training to housing associations, councils, ALMOs and other housing providers.

Find out more about HQN and our network membership by visiting hqnetwork.co.uk or call us on +44 (0)1904 557150.

Rockingham House, St Maurice's Road, York, YO31 7JA
Tel: +44 (0)1904 557150 Email: hqn@hqnetwork.co.uk Visit: hqnetwork.co.uk

HQN Limited Registered in England Reg No. 3087930