

Assurance Statement



Group Chief Executive

Purpose of this Statement

In December 2008 the Housing Corporation (HC) was succeeded by two new statutory bodies, the Tenant Services Authority (TSA), responsible for the regulation and standards of Registered Providers (RPs) and the Homes and Communities Agency (HCA), responsible for investment in social housing.

Previous HC guidance on regulatory matters will in time be replaced by new TSA guidance but in the interim assurance is still based on HC circulars published in 2007 and 2008. The requirements of the HC are that the boards of RPs should maintain a sound system of internal control which:

- focuses on the significant risks that threaten the organisation's ability to meet its objectives; and
- provides reasonable assurance of the safeguarding of assets.

The Boards of Sovereign Housing Group Ltd (SHG) and its subsidiaries have delegated authority for internal controls to the Group Audit & Risk Committee (GA&RC) and to assist in the review GA&RC have requested that the Group Chief Executive and Group Management Team (GMT) members individually present it with a report on the effectiveness of the system. This is the report of the Group Chief Executive.

Executive Opinion

There are, in the opinion of the Group Chief Executive, sufficient, effective and efficient controls in place at 31 March 2009 to manage the overall Sovereign Housing Group. These controls are designed to support the achievement of the Group's business objectives and delivery of the Strategic Plan. The main areas covered by this statement are:

- 1) The Governance Framework
- 2) The Control Environment
- 3) Risk Identification and Evaluation
- 4) Monitoring

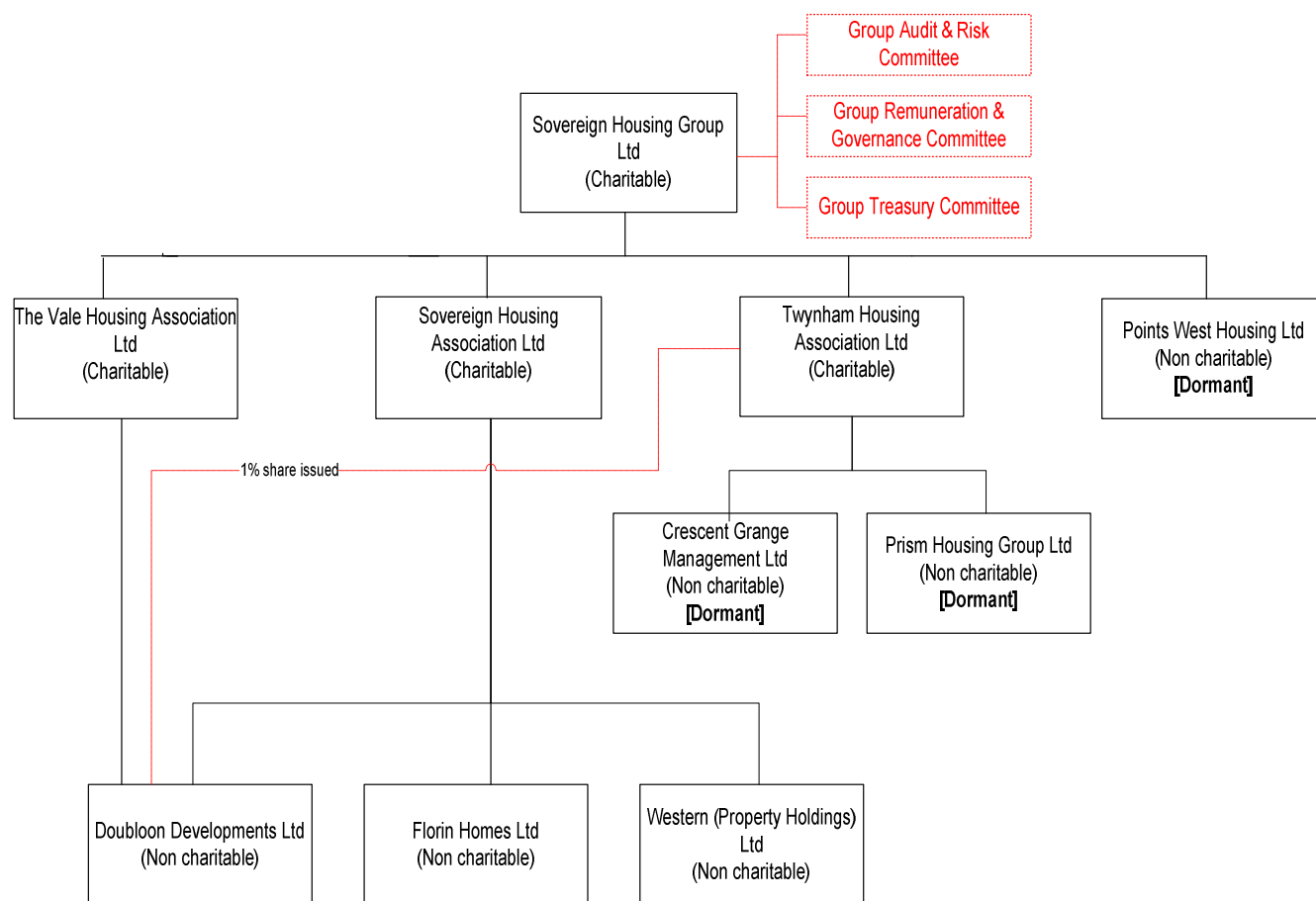
This opinion is supported by the assertions made by other members of the GMT and senior staff.

1) Governance Framework

At 31 March 2009 the Group comprised of four main operational entities:

Sovereign Housing Group Ltd (SHG) – Parent
 Sovereign Housing Association Ltd (SHA) – Subsidiary
 Twynham Housing Association Ltd (THA) – Subsidiary

The Vale Housing Association Ltd (VHA) – Subsidiary



A more detailed description of the current legal structure of the Group is shown above.

In June 2008 the Group entered into formal discussions with the Wessex Housing Partnership based in Basingstoke with a view to amalgamating the two Groups. Activities during 2008/09 have therefore followed two separate courses, the first to progress plans to continue to improve the existing Group governance processes and procedures and secondly to begin to set up the governance processes for the new enlarged Group.

A condition of the TSA approval to the amalgamation of the two Groups is that SHG should undertake a formal review of the second and third tier subsidiaries post 1 July 2009. The intention of this review will be to reduce the number of legal entities within the Group to increase operational efficiency.

Given the change in the regulatory authority from the Housing Corporation as outlined above, it has been particularly important to build effective relationships with the two new bodies and particularly with regard to the TSA to understand the new

regulatory direction. Regular meetings have taken place with the Chief Executives of both the HCA and TSA to ensure that the Group is well positioned to adapt to the new requirements of these agencies.

Over the last 12 months the key aspects of Governance and controls and their development for the new Group are:

- i) The Group and some of its residents, have participated in the TSA's 'National Conversation' which is due to be published on 9 June 2009. This participation has been important to understand the thrust and direction of the new regulatory regime.
- ii) The Group Board structure currently comprises the following:
 - SHG Board
 - SHA Board
 - THA Board
 - VHA Board
 - Group Remuneration and Nominations Committee
 - Group Audit and Risk Committee
 - Group Treasury Committee (from June 2008)

In anticipation of the amalgamation with Wessex Housing Partnership a new Shadow SHG Board was formed from existing SHG and WHP members. A formal interview process, which included an independent representative from Tribal Group, was conducted using a competency based interview process from which new members were appointed. The Shadow Board has operated from February 2009.

At the same time as the amalgamation of SHG and Wessex Housing Partnership the key operational subsidiaries of Wessex, Kingfisher Housing Association and HVHS Housing Group will also amalgamate to form a new subsidiary, KingfisherHVHS (KHV). The KHV Board will be added to the Group structure above and other smaller subsidiaries, along with the existing but effectively dormant Sovereign subsidiaries will be reviewed and rationalised.

- iii) All new Board members are required to attend Board meetings as observers to find out what is required as a Board member as well as attending a formal induction programme. In the light of the TSA succeeding the HC the Group invited Clare Miller, now TSA Director of Risk and Assurance to a Board Away Day, to outline what the TSA's expectations of Board members will be.
- iv) In addition to the above induction programme for new Members, all Board members received training during the year, and were encouraged to attend external courses and conferences as appropriate. During 2008/9 there were training courses on Equalities, Treasury Management and Risk Management as well as Away Days to consider strategy, risk and planning. Julian Ashby from Tribal Group spoke to the May 2008 Away

Days on the future shape of the sector and Peter Marsh, Chief Executive of the TSA has also attended the recent Group Away Day.

- v) Regular contact has been maintained throughout the year with Chris Daly, the Group's Regulation Account Manager, who transferred from the Housing Corporation to the TSA. He attended a Group Board meeting in November 2008, and has held regular meetings with the Chair, Chief Executive and various members of the Group Management Team. His colleague on the Financial Analysis side, Nicole Singh, has also met with the Group Finance Director to review the Group Business Plan and the approach to risk management, especially in relation to Treasury Management.
- vi) Board Member pay was implemented from April 2008. This was intended to improve the Group's ability to recruit appropriately skilled members and to provide increased assurance of attendance and performance. Payments comply with Section 1 of the 1996 Housing Act and follow the HC Good Practice guidance. As part of the review of governance for the enlarged Group an interim review of Board member pay has examined and established new rates of pay for the new amalgamated SHG Board based on revised responsibilities and sector benchmarking data.
- vii) The Board and Committee structure is governed and supported by Rules, Intra-Group Agreements, Standing Orders, Financial Regulations and Service Level Agreements that provide a structured approach to decision making. It also ensures closer monitoring of activities across the key operational departments. The amalgamation with Wessex requires that all of these documents are revisited and rewritten and this work is substantially complete.
- viii) The Standing Orders state the role of the GMT and the separation of strategic and operational activities. The Standing Orders and Financial Regulations specify the responsibilities of Boards and the GMT and detail the approved delegations. The membership of GMT is as follows:
 - Group Chief Executive - Chair of GMT
 - Group Finance Director
 - Group Development Director
 - Group Human Resources Director
 - Managing Director - SHA
 - Managing Director - THA
 - Managing Director - VHA

The Managing Director (Designate) of KHV has attended GMT meetings since the beginning of 2009 and will become a full member on amalgamation.

- ix) GMT meets monthly or more often if necessary to review operational activities, and to consider policy and strategy issues prior to presentation

to the appropriate Board or Committee. This approach provides consistency across the Group and a detailed level of scrutiny before any formal proposals are put to the Board.

In addition to GMT there are a number of other formal management groups. These are as follows:

Combined Strategy Team – GMT, plus other Directors and Department and Service Heads, meets quarterly.

Finance Management Team – The Group Finance Director plus direct reports, (see below), meets monthly. They are developing a strategy for services for the Group and also consider operational matters

SHA Management Team – The MD of SHA plus other SHA executive Directors, meets monthly to consider strategy and operations and to approve development capital expenditure within their delegated authority limits.

THA Management Team – The MD of THA plus Heads of Service meets fortnightly to consider strategy and operations.

VHA Management Team – The MD of VHA plus other Heads of service, meets fortnightly to consider strategy and operations and to approve development capital expenditure within their delegated authority limits.

Development Management Team – The Development Director and senior staff meets monthly to consider development matters, develop proposals for new schemes and monitor development spend, HCA grant take and use of subsidy.

Staff Consultative Groups – These are the key groups for consultation on issues relating to staff. Each subsidiary has its own group plus there is a Group Forum chaired by the Group Finance Director. This group meets four times a year and includes representatives from SHG and the subsidiaries.

Group Operations Forum – This is the group that co-ordinates Customer Service activity across the Group. It comprises the MD's from all subsidiaries and the Group Performance Director. It is chaired by the MD of SHA and meets 6 times a year. This Group is responsible for delivery of the Orion project which is looking at service standards across the Group.

Equalities and Diversity Groups – The structure for equalities and diversity issues mirrors that for Staff Consultative Groups as outlined in the Equality and Diversity Strategy.

- x) Each Directorate has its own arrangements for regular team meetings and briefing sessions. In addition all staff have regular one-to-one meetings with their line manager to ensure proper two-way communication. Twice a

year an individual performance review is undertaken with the line manager, and the results are formally recorded.

- xi) The Group Chair and Group Chief Executive meet at least monthly to discuss key matters. The Group Chief Executive is also appraised on an annual basis by a small group of Board Members in conjunction with the Group Chair.

The structure and approach taken in planning the original Sovereign Group was considered and approved by the Housing Corporation as the Group's primary Regulator. The new structure that will operate from 1 July 2009, post the Wessex amalgamation, has been discussed and approved by the TSA as the new Regulator.

2) Control Environment

Strategic Planning

The Group has a formal approach to strategic planning which is detailed in a Protocol which forms part of the Intragroup Agreement (IGA).

A Steering Group is established to manage the process and Away Days arranged for the Boards and GMT to set a framework and parameters.

The Combined Strategy Team is significantly involved in preparation of the detail and members of staff are consulted during the process before the revised strategy is put forward to the Boards for consideration.

An interim strategy review was undertaken during 2008/9 and a new plan adopted by the Group in September 2008.

The Strategic Plan is the basis for the 30 year Business Plan which is provided to the TSA and the Group's funders. This Business Plan provides the main operational controls against which the Group measures its performance. The Group Business Plan is supported by various operational plans that are the responsibility of individual named Directors. These action plans are regularly reviewed by the Directors through team meetings and one-to-one's and are monitored by the Group Management Team.

On an annual basis the Strategic Plan is reviewed and updated as appropriate to ensure that it responds to changes in the external environment, and that these changes are properly quantified in the Group Business Plans.

Wessex is viewed as a very good strategic fit with Sovereign and complements the existing Sovereign strategy. To support the amalgamation the Business Plan incorporating Wessex has been reworked and submitted to the TSA along with a detailed action plan and proposed savings resulting from the amalgamation. On the basis of this information the TSA have approved the amalgamation.

Operational Responsibilities

Operational responsibilities within the Group are structured as follows:

- SHG – this is the Parent organisation for the Group and provides support services to the subsidiary members. The key Directorates within SHG are;

Chief Executive (incorporating Strategy and Communications), Finance (incorporating Company Secretarial, IT, Facilities and Health and Safety), Development and HR. The Performance Directorate is managed by the MD of SHA who leads the Group Operations Forum.

In November 2008 the Group Resources Director left and given the amalgamation with Wessex the opportunity was taken to restructure the GMT. It was recognised that with the increasing number of employees in the Group, which post amalgamation with Wessex will be over a thousand, a HR specialist was required on the GMT

All GMT Directors report directly to the Group Chief Executive. Services continue to be provided to subsidiaries pursuant to the Intra-Group Agreement and Service Level Agreements, (SLAs).

One further change was made to operational responsibilities during the year. Personnel in the subsidiaries that were providing support services, mainly finance, HR and IT staff, were seconded to SHG so that these services could be centrally managed in the most efficient and effective way. Similarly when Wessex join the Group, Wessex staff, who already provide services to the Wessex Group will be integrated with SHG under the leadership of the SHG GMT Directors.

- SHA, THA and VHA – each of these subsidiaries is led by a Managing Director who is responsible for all aspects of the subsidiary's performance including customer service.
- Risk and Monitoring – responsibility for risk identification and evaluation has been delegated to the Group Finance Director and to the Assistant Director of Audit and Risk, (who directly reports to the GFD in respect of Audit and Risk issues), and is dealt with in detail in the following section. The Assistant Director of Audit and Risk has responsibility for ensuring risk management is embedded in all operational action plans.

The responsibility for the provision of financial monitoring information is also the responsibility of the Group Finance Director and is detailed in the section on Monitoring. The Group Finance Director in his Annual Statement has certified that reporting and monitoring information is sufficient to allow the Group to be managed safely and prudently.

A framework of Standing Orders, Financial Regulations and Policies and Procedures support the control systems. These are accessible to all staff and a number of training sessions have been held to ensure awareness and understanding. As highlighted above, these documents are currently being reviewed and redrawn in the light of the amalgamation with Wessex Housing Partnership. Among other aspects of control, the new Group Standing Orders and Financial Regulations will focus on providing an efficient and effective scheme of delegated authorities within the enlarged Group.

Standing Orders provide a framework of delegated authorities for individual transaction types and these clearly specify the limits of individual authority. The Intragroup Agreement also requires each subsidiary to comply with Group policies on treasury management and business planning.

Each year the Group and individual operating units establish Annual Budgets within the context of the Business Plan. Each operating unit prepares a budget that is approved by its Board. The Group Board ratifies these and the consolidated Group budget. A sophisticated system of budgetary control is in operation to ensure that only clearly budgeted expenditure is permissible. Budget holders must seek new approval for over expenditure or virements.

During 2008/09 the Group introduced a five year budget as a 'bridge' between the Annual Budget and the 30 Year Business Plan. Expansion of the Group requires changes in the scope and make-up of central services that are best viewed in detail on a longer timeframe than the Annual Budget.

The change allows the operational subsidiaries to understand more effectively the financial impact of harmonising Group service standards, which has been the subject of the Orion Project, likely changes in the level of central charges moving forward, and also allows the Group to better forecast and understand the effects of changes in the financial and housing markets and required changes as a result of new regulatory regime.

3) Risk Management

Responsibility for risk management has been delegated by the Boards to the GA&RC. This Committee meets at least quarterly. Responsibility for the provision of information on risk is delegated to the Group Finance Director.

The risk management framework for the Group covers both strategic and key operational risks in the context of the Group, and individual operating unit Business Plans. The Risk Map which covers key strategic risks to the Group identifies those issues which are likely to hinder the attainment of business objectives, details the controls in place or being developed to mitigate each risk and identifies the manager most responsible for each risk, (the Risk Owner). Each risk is scored on the basis of its Impact on the Group and on the Probability of the risk materialising after consideration of the extent and quality of controls. Controls in all cases are proportionate to the severity of the risk. This allows risks to be ranked in terms of their potential consequence and allows management and the GA&RC to focus on a smaller number of 'key' risks to the Group. It further allows the Group's Internal Audit programme to be more focussed on these Key Risks.

The Risk Map is considered in its totality at least annually and the Committee receives quarterly updates on new or changed risks. The Committee also receives a summary of the Key Risks and certification from the appropriate Risk Owner that controls are being maintained. The full Risk Map was approved by GA&RC in November 2008. The combined risk profile for the Group is then reviewed and signed off by the Parent Board. Actions identified to mitigate risks are reviewed for adequacy and appropriateness by the Committee and included in the operational

plans of Group organisations. The operational plans are then referenced back to individual risks in the risks maps for completeness. In the current climate of economic and regulatory uncertainty the new Standing Orders will specify that Group Boards will receive a ranked summary of risks each quarter.

The Group's Risk Maps were externally validated for scope and content by Hargreaves Risk and Strategy in March 2009 and approved by the Board.

2008/09 has seen the continuation of the credit crunch that began in mid 2007 and has continued to provide a very difficult operating environment for the Group. In June 2008 a new Group Treasury Committee was formed recognising that treasury is becoming an increasingly specialised area, that the Group's treasury activities are complex and the financial environment extremely difficult. The Group Treasury Committee continually reviews the adequacy of the Group liquidity planning and monitoring and provides assurance to GA&RC that these aspects of treasury are being adequately managed.

Other enhancements to the management of the development programme in particular as a result of present conditions are detailed in the statements of the Group Finance Director and Group Development Director.

The Assistant Director of Audit and Risk is the Association's Risk Champion and works closely with senior staff in compiling and reviewing the Risk Map. The Group's internal audit activities are contracted out to Mazars LLP with a view to increasing the available resource to manage risk, to introduce more objectivity in how we manage and cope with risk and to be better able to consider our performance against peer RPs.

4) Monitoring

Financial Monitoring

Responsibility for financial monitoring and control is delegated to the Group Finance Director. This responsibility covers revenue, (operational) activities and capital, (construction of new homes and funding) activities.

The Group Finance Director's staff provides monthly accounts to individual budget holders and consolidated revenue and capital information to Directors and the GMT. At each meeting the individual Boards consider the financial performance of the operations in relation to the Annual Budget.

A system of investment appraisal is used that allows individual building projects to be assessed against established criteria to determine their financial viability and suitability. These criteria reflect those used in the Group Business Plan to ensure consistency between the Plan and operations. The Group Finance Director has responsibility for the integrity of this system and for ensuring the availability of funds to cover the ongoing investment programme.

With the continuing financial uncertainty the Group has expanded its use of scenario planning to ensure that in what is likely to be a period of fluctuating deflation and inflation the Group does not over-commit itself.

External Validation

The Group seeks to monitor its effectiveness and efficiency through a series of external checks and validations provided chiefly by the TSA and the Audit Commission.

The Audit Commission reviewed THA services in February 2008 and received one star with promising prospects. This validates the effort in improving THA since it joined the Group in 2005. An Action Plan has been established which deals with issues raised by the Inspection process. The Inspection Plan is reviewed by the THA Management Team at its monthly meetings and twice a year by the TSA. One of the main recommendations arising from the Inspection, the need for a more formal approach to evidencing Value for Money has been expanded to produce a Group Value for Money Strategy which will put to the SHG Board in the autumn.

The Inspection process and result has highlighted the increase in standards that has taken place since SHA was inspected in 2005 and therefore the Group Operations Forum has been working to ensure the Group's service offering is consistent across the Group. Internal services reviews will start in June 2009 using resident inspectors and staff to compare and contrast standards and approaches.

The Group and the Sovereign Development Consortium (SDC) had their Developing Partner status confirmed by the HC in early 2006 and were pre-qualified for the 2008/11 Bid Round.

The HCA took over the investment responsibilities of the HC in December 2008. The credit crunch and the depressed housing market have meant that developers have significantly slowed on new developments and a number of RPs have been unable to meet commitments to the HCA through a lack of availability of funds. The SDC has been able to maintain its programme and has been particularly successful in obtaining additional grant to support tenure change where shared ownership sales have proved difficult. Additionally the Group has been able to obtain in excess of £3m grant on new unplanned schemes as the HCA finds new approaches to support the market.

At March 2009 the SDC achieved upper quartile performance across all HCA performance indicators.

The Housing Corporation used to publish an assessment (HCA) using a traffic light system giving its views about the performance of all RPs. The TSA has introduced a new Regulatory Judgement document to replace the HCA and this does not utilise the scoring approach.

In November 2008 the HC published its last HCA for the Sovereign Group which gave 4 green lights under – finance, development, management and governance. A new Regulatory Judgement for the Group will be issued post the amalgamation with Wessex. As Wessex also has 4 green lights in its current HCA it is not anticipated that there will be any problems with the combined performance assessment.

External Contacts

It is essential that the Group is aware of external changes and environmental issues. In order to facilitate this awareness, staff across the organisation are encouraged to take part in external working groups and forums at both a local and regional level.

At a strategic level, the Group Chief Executive is a Board member of the National Housing Federation (NHF) and a member of the NHF South East Executive Committee. The Managing Director of SHA is a member of the NHF South West Executive Committee.

The Group Chief Executive is also a member of the South East Regional Housing Board, Chair of CASE, a lobbying group of large associations operating in the South East and a member of the Volume Developers Group (VDG), which is group of large developing associations with links in to Government.

Each of the executive directors is encouraged to take part in sector wide discussion and training events, and all are involved through the NHF in various working groups to shape policy and practice.

Having regard to the foregoing the Group Chief Executive feels confident in providing the opinion in Section 2 of this Statement that sufficient, effective and efficient controls are in place to manage the Group.

Ann Santry
Group Chief Executive

8 June 2009