

Assurance Statement



Group Development Director

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 Social Landlords (RSLs) 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 RSLs 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.

To establish the effectiveness of the system of internal control the board should conduct an annual review. This report forms part of that annual review.

The Boards of Sovereign Housing Group Limited (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 Development Director (GDD).

Executive Opinion

There are, in the opinion of the GDD, sufficient, effective and efficient controls in place to manage the four functions of responsibility. Furthermore, all members of staff have been made aware of the importance of controls and the monitoring processes in place.

Control and Organisational Hierarchy

The GDD is responsible for four functional teams;

Development,
Sovereign Development Consortium, (Management)
Asset Management,
Home Ownership.

These functions are provided through the Group Parent, SHG, which is contracted to provide these services to Group members, Sovereign Housing Association, (SHA), Twynham Housing Association, (THA), and Vale Housing Association, (VHA), through Intra-Group Agreements and Service Level Agreements.

Each functional team is aware of the Standing Orders and Financial Regulations and those particularly relevant to their area of activity. These have been followed throughout the year to 31 March 2009. During the year activity outside each functions' authority has been referred to the Group Management Board or subsidiary Boards. For example;

- All development scheme proposals outside the agreed delegated criteria are referred to the appropriate subsidiary Board for decision.

There is an organisational structure in place with revised and enhanced job responsibilities defined. The organisation is further refined into the members of each functional team. Each team member is aware of their position in the team and their duties and responsibilities through the Organisational Structure and individual Job Descriptions. The Job Descriptions will continue to be reviewed regularly and form a framework for regular 1-2-1 meetings and detailed Action Plans. This compliments the lines of reporting.

Both regular reporting and Action Plans are discussed at monthly 1-2-1s and team meetings.

Formal processes also exist throughout the function primarily with regard to scheme progression and approval. Schemes can only be progressed for approval once a checklist of requirements has been completed. They are proposed by Regional Development Managers to the monthly Development Management Team, (DMT), meeting and agreed there before being submitted to the subsidiary Management Teams, GMT or Boards as appropriate. All mixed schemes must include detailed Marketing Reports in relation to properties to be offered for shared ownership, including comparative recent sales data.

The regular monthly DMT meeting enables all Directors to share their status reports and raise any issues formally and directly. It is a standard agenda item to take any queries on status/progress reports.

Sovereign is the lead partner in the SDC, a partnership which includes 12 other RSLs. The Consortium includes some smaller specialist associations and was established in part to ensure continuing access to grant funding for these smaller associations.

The SDC, although not a legal entity, is regulated and governed by a series of formal agreements, principal among which are:

SDC Framework Agreement
Framework Management Process
Framework Management Team Charter
Strategic Core Group Charter

The SDC has its own strategy agreed by the Consortium members.

The GDD's staff now provide day to day management and coordination of SDC activities and effort is being made to make this a much more cohesive unit in terms of development standards, policy and procedures and procurement.

Policies and Procedures

SHG Policies and Procedures are submitted for approval by the GMB and are made available to all staff once approved through inclusion in public folders and published documents, particularly where the functional team members have limited access to computers.

During 2006/07, as part of the move to establish common standards, Policies and a common Contractors Framework for the SDC, an Extranet was established for SDC members, (in addition to the SHG Intranet), incorporating Policies and Procedures. In 2008/09 this sharing has been updated using 'Sharepoint'.

All SHG Development Policies and Procedures were reviewed prior to being included on the Extranet. Asset Management also use these Policies and Procedures. Home Ownership policies and procedures were reviewed and formalised in 2007/08 and are now incorporated on the Intranet.

During 2008/09 all policies and procedures have been reviewed and revised.

Reporting and Monitoring

Over the past year the deteriorating housing market has increased the necessity to continually review the market, developer activity, grant availability, etc. In response to this market uncertainty GMT has introduced a standard agenda item for its monthly meetings on Market Conditions which allows Directors to share information on the various aspects of the market and thus inform decision taking.

Reporting on Consortium activities is undertaken by Development. Specific reporting by each functional team is summarised as follows:

Development

The Development directorate is supported by a Development Finance Team who are members of the Group Finance Director's (GFD) staff. The Development Team use a scheme appraisal system, ProVal, that ensures a consistent approach is taken on the viability assessment of each project. Assumptions used in each appraisal, including unit 'subsidy' rates for each tenure type, are aligned with assumptions used in the 30 Year Business Plan and these are reviewed and approved annually by GMT and Parent and Subsidiary Boards. ProVal is linked with an associated project monitoring system, Sequel, that provides the information for monitoring performance of projects against approved budgets. Variances are reported on a monthly basis to the GMT. The Proval and Sequel systems are maintained by Development Finance. Alongside ProVal and Sequel the Group regularly reports to the Housing Corporation and the GMB on its performance of grant expenditure against Cash Planning Targets agreed with the Homes and Communities Agency (HCA) who succeeded the Housing Corporation in December 2008.

During 2008/09 the sector including Sovereign has been severely impacted by the effects of the 'credit crunch'. Developers have cut back substantially on new development as the value of newly completed properties and of their landbanks has fallen sharply and new funding has been difficult to obtain. The restricted availability of mortgages during 2008 and the anticipation that house prices may continue to fall has reduced both new shared ownership sales and staircasings.

For Sovereign the availability of new funds has also been uncertain and Development has worked closely with Finance during this period to ensure that new commitments are made only against agreed committed loan facilities and that for each scheme that includes shared ownership a clear exit strategy is shown in the event that forecast sales prices are not achieved. The Housing Corporation and subsequently the HCA have been very supportive during this period and have focussed on their strategy of Continuous Market Engagement and supporting tenure change where this has been necessary with a view to maintaining and supporting the market.

Asset Management

Asset Management uses the same appraisal and monitoring systems, ProVal and Sequel, as Development though specific assumptions may be adjusted as appropriate for individual schemes. Variations in assumptions are approved by GMT or Boards as necessary. Regular reports are produced on properties for sale/transfer and these are approved in line with the delegated authority levels. The overall Asset Management Programme is planned and managed to achieve cash neutrality in Business Plan terms.

Home Ownership

The viability of all traditional shared ownership projects are the subject of Marketing appraisals and reports. The marketing risk associated with each project is also examined and Marketing Reports that include external valuations are required on projects before approval is given by the Subsidiary Management Teams or Boards as appropriate. Monthly reports are produced monitoring performance against targets on all Home Ownership schemes. All applicants for Low Cost Home Ownership are screened to ensure they meet the appropriate HC and other standards, (including HMRC charitable guidelines), to qualify for this type of tenure. As for Development above Home Ownership have worked with Finance during the period to identify the most effective alternative in the event that sales are not possible and have worked with Development to obtain additional grant to support tenure change and offset losses. Completing schemes are reviewed monthly to see whether further sales incentives are necessary, additional marketing effort is required or at what point to implement change in tenure in line with the Exit Strategy and apply for additional grant to support such changes.

Risk Management

The GDD and all Heads of Service recognise the importance of Risk Management and the relevance to robust internal controls. Each individual project appraisal contains a section on development risk and proposals to mitigate these risks. Reports are made regarding perceived changes to risk during the development period.

During 2008 Development has repeated a Project Risk Management course devised by Zurich specifically for the business for new staff members and as a refresher to existing employees.

a) Business Risks and the Risk Map

Risks, that might hinder the achievement of the Group's objectives and Business Plan, are identified and included in a 'Risk Map' for the Parent and subsidiaries. Risks are assessed annually and evaluated against the Business Plan, prior to being considered and approved by the Subsidiary and Parent Boards. A Risk Map is prepared detailing risks and mitigation. Within the Risk Map specific risks are categorised as reputational or financial and evaluated in terms of Impact and Probability. In terms of the Business Plan capacity is reserved against the potential materialisation of risks.

The Assistant Director of Audit and Risk, who is responsible to the GFD for the operation of internal control and risk management, ensures that mitigation actions are embedded into the operational plans of the Group where appropriate. The GFD provides update reports quarterly to the GA&RC to whom responsibility for risk has been delegated by Group Boards and risk owners certify that controls are being maintained or enhanced.

b) Internal Controls

Internal controls are designed to provide assurance on the safeguarding of assets and to mitigate the effects of business risks. The implications of exposure to risk following proposed changes in working practices are also fully considered and advice is taken where appropriate. The spectrum of internal controls and the efficiency and efficacy of individual controls is continually evaluated and enhanced through Internal Audit

c) Internal Audit

Internal Audit Reports are prepared routinely on the operations of all four functions of the Department. These reports review both the quality and operation of internal controls and the identification, quantification and mitigation of business risk.

During the year the Group's internal auditors completed 3 reports on individual service areas, including shared ownership sales and marketing, within Development, all of which demonstrated good performance and provided 'substantial' assurance. In the current economic climate these results are particularly pleasing.

Having regard to the foregoing the Group Development Director 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.

Phil Stephens
Group Development Director

11 May 2009