

Asset & Liability Registers

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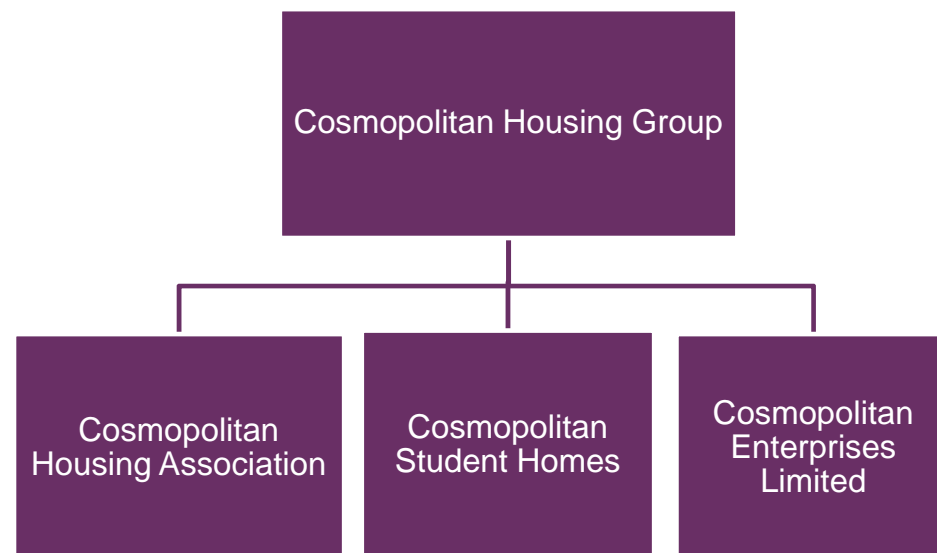
Background: Cosmopolitan failure

Background – Cosmopolitan Housing Group

Cosmopolitan Housing Group was first formed in 2003 to separate student housing activities from the Cosmopolitan Housing Association. This was done through the creation of different subsidiaries.

This was in line with the then regulator, Housing Corporation's (HC), policy requiring that "diverse activities" be removed from the main housing organisation.

At this time Cosmopolitan Housing Association was already undertaking a significant amount of development. It was funding the development of student accommodation through sale and leaseback or lease and leaseback arrangements.



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The information provided to the Board in the form of development appraisals was very poor

Significant amount of development

Weak governance and management

COSMOPOLITAN

Off-balance sheet funding, through the creation of a joint venture

Poor tenant service

Under spending on maintenance of existing properties

The beginning of the end...

In May 2012, Cosmopolitan Housing Group was experiencing cash flow problems as expected funding for its 'overly ambitious' development programme was not in place. The gearing loan covenants had been tight for some time, with potential breaches

The parent company have given guarantees against a number of leases which meant that the social housing assets of CHA were at risk. There was an overly complicated Group structure, which made it difficult to monitor performance of subsidiaries

This was the beginning of the crisis that brought the whole Cosmopolitan Group to the brink of insolvency

Cosmopolitan was then bought over by Sanctuary Housing Group



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Cosmopolitan: Lessons Learned

Cosmopolitan: Lessons Learned

Altair was commissioned by Sanctuary, and the HCA, to undertake a review of the events which led to the Cosmopolitan joining the organisation.

The lessons learned for the sector and regulator focus on five themes:

Cosmopolitan Housing Group
Lessons Learned
June 2014

Themes	Recommendations and Comments
Skills and Resources	Boards should have the right people with the skills and experience to govern well
Information Requirements	Housing Associations are to communicate to the HCA key information such as their assets and liabilities in a timely and accurate manner
Risk Management	The risks that the organisation faces should be clearly understood
Mergers	The Board needs to be in the control of the merger process, understanding the importance of due diligence
How Housing providers and the Regulator should act in a crisis	The new regulatory framework takes into account the recommendations of the report

The regulatory context refresh

Cosmopolitan report highlighted the need for:

- Skilled boards, who understand how to govern a complex business
- Finance and risk expertise at board and executive level
- Retaining corporate knowledge
- Accurate information about business assets and liabilities.



Regulatory changes

Regulatory changes in England:

- In-depth assessments (IDAs) - or 'deep dives' by HCA analysts
- Return minimal financial information on a yearly basis – it is vital that data provided is accurate
- Assets and liabilities register
- Stress testing and Scenario Testing
- Increased focus on value for money
- Appropriate, robust and prudent business planning, risk and control framework



Welsh Government approach to Regulation

- Proportionality
- Transparency and openness
- Consistency
- Promoting improvement and learning



Risk based approach

WG will prioritise risks in terms of:

- The **likelihood** a risk will materialise
- The **impact** - scale and significance - if it did
- The **ability** of the housing association **to manage** and deal with the risk

When considering “impact”, the Welsh Ministers will take into account:

- Impact on tenants and service users
- The vulnerability of affected tenants and service users
- The extent to which the community relies on the association for services and amenities
- The association's size - the number of homes it manages and the number of tenants it has
- The amount of public money the association receives
- How long the association has been operating
- The amount of private loan finance provided by lenders and committed for the future.



Risk based approach

Views on the ability of a Housing Association to manage and deal with risks will be informed by:

- The Association's track record in managing change and improvement, handling challenging issues and making difficult decisions.
- Confidence in the Board and the senior management team.
- The Association's track record in dealing with other issues that have been raised as a result of previous contact.



Welsh Regulation update

- New Regulatory Board for Wales
- ONS “public bodies”
- Sector Risk Profile
- Regulatory Assessments
- Self evaluation
- Stress testing and Asset and liability registers
- Equality and diversity
- Value for Money
- Paying Board Members



How does this link to the ALR?

Implementation and maintenance of a comprehensive Register of Assets and Liabilities allows the Board to demonstrate that:

- It understands the **liabilities / obligations / commitments** of the business
- The business has the **assets / capacity / liquidity** to maintain these commitments over time
- It understands the **risk** of these commitments to financial viability
- It has implemented a governance structure that is **relevant / proportionate to the scope / scale / risk of the business**
- It understands the fundamental **link** between the **Assets and Liabilities Register and Business Plan Stress Testing**
- It understands the **importance of risk management** being at the forefront of governance



Asset and Liability Register

What are they?

- A thorough, accurate and up to date record (register) of assets and liabilities, particularly those liabilities that may have recourse to social housing assets
- Break down of assets by business stream and clearly and separately identify social housing assets and their value. Which of your assets are encumbered and to whom?
- The asset/liability register should be a 'live' document, used to help diagnose the overall risk profile of an organisation, and the board should make decisions about what's in line with reasonable risk appetite.
- The Register should contain sufficient information to enable a potential buyer to accurately price the value of the business and/or the value of social housing assets in the event of distress.

Asset and liability register

What are the key things that your organisation will include in its Asset and Liability Register?

Asset and liability register



- Housing properties and other long term assets
- Land Registry Title number
- Address, postcode and Local Authority area
- Property type and number of bedrooms
- Cost / valuation
- Component details / future maintenance spend
- Date of purchase / lease commencement / terms
- Charging details / to whom / uncharged
- Planning information (S106 agreement / nominations agreement / restrictions on title)
- Other restrictions on title (charitable, legacy etc)



Development contracts register

- Same property data requirements as asset register
- Scheme details (location, number / type of units, tenure mix)
- Delivery / handover profiles, latent defects clauses, overage clauses
- Payment schedules, performance thresholds, trigger events, penalty clauses
- Planning information (S106 agreement / nominations agreement / restrictions on title)
- If leasehold – term / landlord obligations / restrictive covenants / end of term provisions



- Offices
- Commercial properties
- Equity / long term investments
- Trade and other debtors
- Other items with material realisable value



Loans and other borrowing

- Audited loans portfolio & covenant register;
- Lender/ bond investor
- Amount, maturity, repayment profile, interest charges
- Financial covenants & other covenants
- Cross-default clauses
- Consents required
- Hedging
- Mark To Market and security on stand-alone fixes
- Location of final signed documentation, any side letters.



Other liabilities

- Guarantees to support other entities or financial structures
- Contract performance clauses
- Management agreements
- Equipment leases and building leases including dilapidations
- Sale and leaseback arrangements
- Other creditors
- Pension deficits, triggers and deficit recovery
- Cancellation clauses in other long term contracts
- Impairment potential
- Legal claims (employment etc) and other disputes



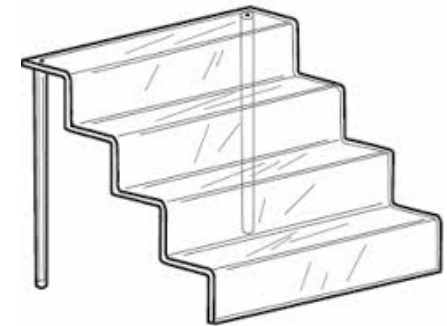
Creating the Asset & Liability Register

A practical example

Creating the register

Four step process:

- Establishing your policies as to what is to be included in your Register;
- Obtaining and locating the documentation in the most cost efficient way to inform the content of the register;
- Reviewing documentation where necessary to find liabilities for inclusion in the Register; and
- Maintaining the Register to ensure it is up to date.



The production of a Register will require input from all departments of an RSL from treasury to maintenance, from housing management to development – have you got the resources?

Need not be one Register – can be a series of registers indexed to make them easily accessible

What should be included?

What are the practical issues that would impact on preparing the asset and liability register for your organisation?

The Organisation:

- RP based in London
- Just over 3,300 properties in management
- £240m worth of housing assets (at cost) with a NBV of around £80m
- Loans of around £50m
- Around 1,800 charged properties
- Small development programme (one 12 unit scheme about to go on site)

The Process:



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graph LR; A[Appoint a Working Group] --> B[Kick-off meeting with Working Group]; B --> C[Data collection]; C --> D[Draft Asset and Liability Register];
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Appoint a
Working
Group

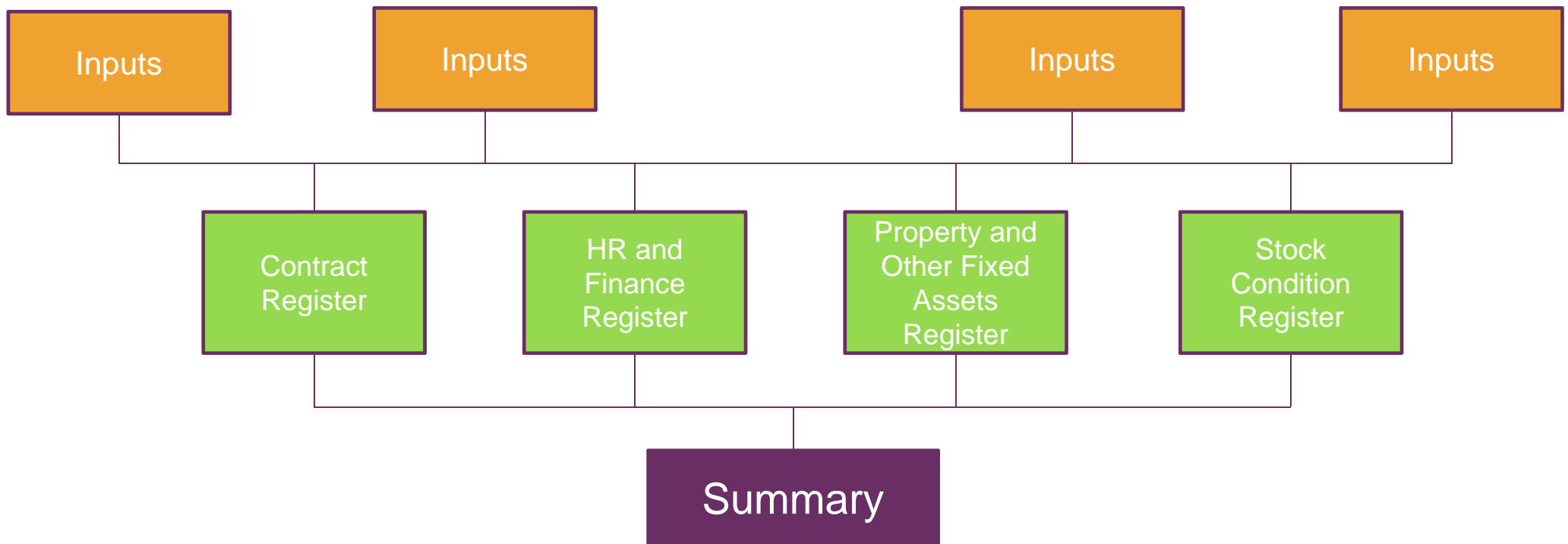
Kick-off
meeting
with
Working
Group

Data
collection

Draft Asset
and Liability
Register

Problems	Solutions
Perception of importance/buy-in	<ul style="list-style-type: none">▪ Item on the agenda at the next SMT/EMT meeting?▪ Project Manager extremely important
Asset Management	<ul style="list-style-type: none">▪ Agreed a method of forecasting major repairs, cyclical and planned maintenance spend based on estimated asset life, estimated average replacement cost and most recent replacement dates (where available)
Data quality	<ul style="list-style-type: none">▪ Built the register to accommodate the different formats used▪ Each input and output sheet had instructions▪ Or do you dictate the way the business keeps its information?
Geography?	<ul style="list-style-type: none">▪ Do you appoint more than one project manager to deal with different areas of the Register, relevant to geography of the business?▪ Communication avenues should be sufficient to manage.

What was produced:



Summary sheet extract:

	Current
ASSETS	£
Property & Other Fixed Assets:	
Housing Properties at Cost	£238,208,628
Accumulated Depreciation	-£24,281,072
Social Housing Grant (SHG)	-£133,630,270
Net Book Value (NBV)	£80,297,286
OMV-Tenanted Valuation	£167,965,000
Other Fixed Assets at Cost	£8,015,371
Accumulated Depreciation	-£2,653,828
Net Book Value (NBV)	£5,361,544
Land bank	£200,000
No. of Properties in Management	3,308
HR & Finance:	
Current Arrears	£903,940
Former Arrears	£452,143
Total Arrears	£1,356,083
Cash	£9,773,383

Case Study

LIABILITIES	
Property & Other Fixed Assets:	
No. of Properties that qualify for RTB/RTA	556
Stock Condition: Current year expenditure	
Major Repairs	£1,322,900
Planned Repairs	£771,100
Cyclical Repairs	£119,700
Plant & Equipment:	£1,054,000
Total	£3,267,700
Finance & HR:	
Loans	£52,190,425
OMV-Tenanted Valuation	£167,965,000
Asset Cover Required	£74,286,306
Excess security	£93,678,694
Total charged as security	1,831
Unencumbered Properties	1,477
Excess Properties (OMV)	981
RCGF - held for more than 3 years	£25,735
RCGF - held for less than 3 years	£26,804
Total	£52,539
Void Properties	47
Trade Creditors	528,378
Staff costs	
Redundancy - 5% of total exposure	£1,388,556
Untaken Holiday - 5% of total exposure	£186,693
Staff Loans	£37,900
Estimated Total Staff Liability	£1,613,148
Pension Liability and Payment Plan	£239,776
Contracts - Total commitment:	
Development	£3,600,000
Housing	£295,860
Central Services	£160,059
Asset Management	£175,741
Total	£4,055,919

Recommendations:

Specific to this organisation:

- Stock Condition Survey
- Asset Management procedures
- Central contract register

General:

- Maintain the working group
- Periodically update the register
- Audit Committee (or similar) agenda
- Align with Business Plan and Risk Register



Recommendations

Uses of the Asset and Liability Register

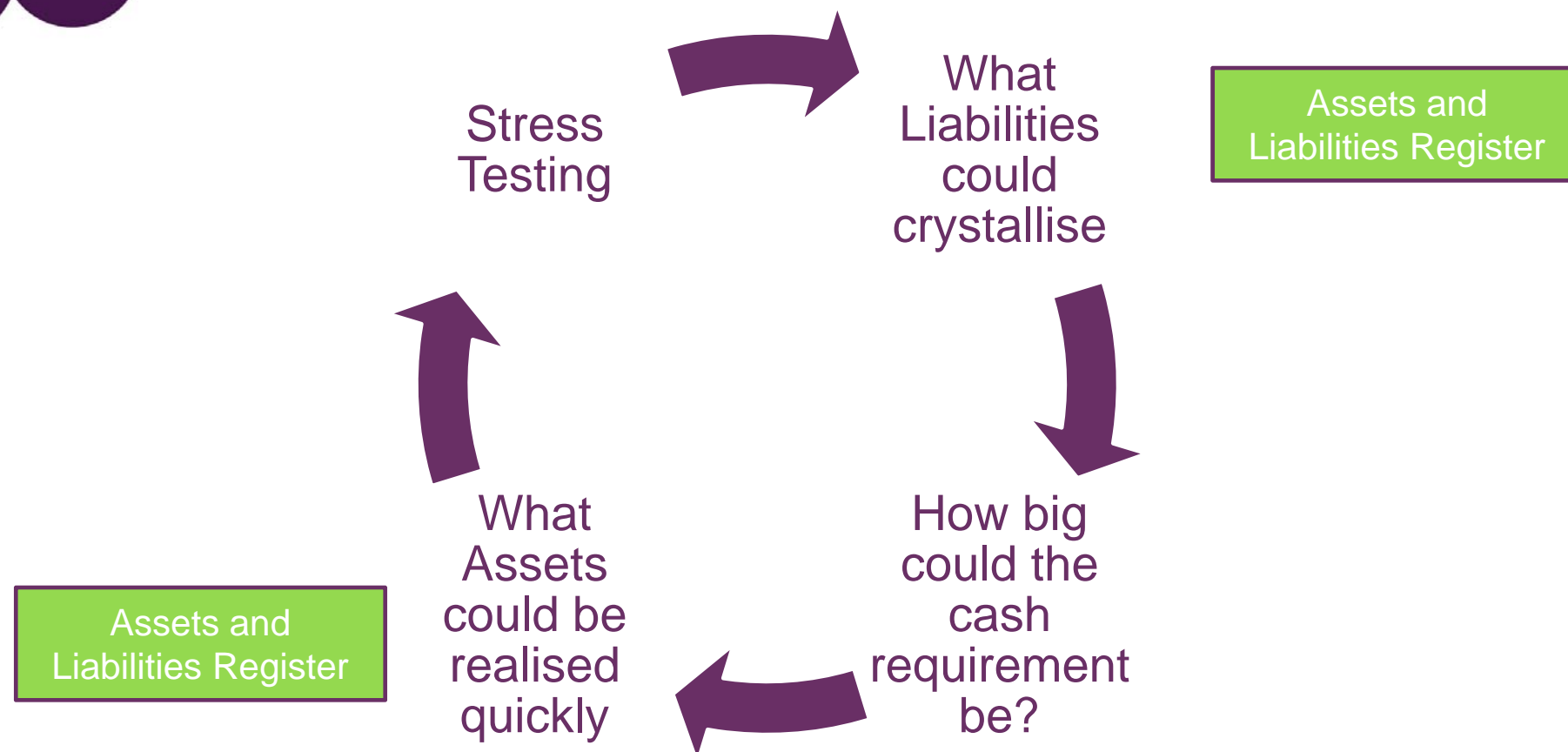
The value of a good ALR

- Speed-up securitisation process, maintain liquidity
- Links up approach to short / medium / long term investment and re-investment
- Allows board to understand composite risk exposure of business as a whole
- Clear picture at agreed point of time
- Allows rapid assessment by rescuer if in distress
- Evidence of assurance to regulator, funders and other stakeholders

Link to stress testing

- Multi-variate analysis – the “perfect storm”
- Risk, recourse, and where the business fails – resilience / robustness
- Discretionary spend / savings requirement
- Identifies unutilised capacity
- Link to ALR - integrated approach





Link to other strategies

- Asset Management Strategy
- Development strategy
- Treasury strategy
- Risk strategy
- Business plan stress testing



Board and Audit Committee

Board

- Helps to understand major threats
- Allows challenge to action plan
- Have re-considered risk appetite & cushions on an informed basis
- Clear understanding of contingent liabilities

Audit committee

- Check accuracy & accessibility of A&L register
- Gain assurance re preparedness in case of threats
- Actions are realisable at speed
- Internal Audit & specialist assurance to verify



Good luck!

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- Strategy & Governance
- Finance
- Property
- People