Homes & Communities Agency

The Social Housing Regulator

HCA Regulatory Judgement on Luminus Group Limited - L4398

Luminus Homes Limited - LH4253
Oak Foundation - L4399

April 2015

The provider

Luminus Group Limited (Luminus) was established in September 2003. It stemmed from the former Huntingdonshire Housing Partnership, a stock transfer organisation registered in 1999. At 31 March 2014 the group owned and managed over 7,500 properties predominately in Huntingdonshire, with a small number of homes in Fenland, Milton Keynes, Peterborough and South Cambridgeshire.

The group's core business is the provision of general needs and supported housing. It identifies its strategic focus as the provision of high quality affordable homes and customer-focused services in the communities it serves.

The group's registered providers are:

- Luminus Group Limited (the parent) which provides central management services to the Group.
- Luminus Homes Limited which owns and manages 6,884 units of social housing.
- Oak Foundation (Oak), a registered charity which owns and manages 629 units of social housing, specialising in housing and services for elderly or vulnerable people.

There are four unregistered subsidiaries: Luminus Finance Limited, a treasury vehicle responsible for the provision of long term borrowing facilities; Luminus Developments Limited, which deals with the acquisition of land and development of homes for sale; the Ferry Project, a registered charity which provides residential accommodation for homeless people over the age of 16 in the Fenland area; and Hope Social Enterprises Limited, which provides a range of services including ground maintenance, recycling and cleaning.

The group employed around 279 staff and had an annual turnover of £42.3m in the 2013/14 financial year.

Reason for publication: Governance upgrade and viability downgrade.

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 & 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

This regulatory judgement upgrades our previous assessment of Luminus' governance but downgrades our previous assessment of its viability. Both of the previous ratings were published in July 2013.

Based on evidence gained from contact with the board and executive, and a review of board papers and other documentation, the regulator has assurance that Luminus has addressed the areas for improvement identified in our previous regulatory judgement. We now have assurance that Luminus' governance arrangements are sufficient to enable it to continue to meet its objectives and to support continued compliance with regulatory requirements.

Our previous regulatory judgement concluded that Luminus needed to improve its approach to treasury management, risk management and the robustness and independence of its internal controls framework. It also identified a need to demonstrate effective arrangements for reviewing board effectiveness.

The group's treasury management arrangements have been comprehensively reviewed and strengthened with the assistance of external advice and we are now satisfied that arrangements to manage treasury matters, including associated risks, are adequate. Previous inaccurate presentation of treasury matters on regulatory returns was also raised as requiring improvement. We are satisfied that this issue has been addressed.

Luminus engaged an independent consultant to undertake a review of its risk management processes. The group has implemented the recommendations arising from the consultant's report and has been able to provide independent validation of the improvements made.

Luminus has now carried out a comprehensive review of its internal controls framework and the operation of its audit, risk and finance committee. In parallel, an external consultant provided an independent view. The recommendations from the review have been actioned and we are now satisfied that Luminus' arrangements for internal control and risk management are adequate.

We previously expressed concerns that there had been limited external perspective into reviews of board effectiveness and board appraisals. Luminus has now completed a more robust review of board effectiveness with external input, and has developed an appropriate succession strategy. The review provides a satisfactory level of assurance that governance arrangements are adequate, that the skills and expertise of the board meet the needs of the organisation, and that the quality of governance arrangements is sufficient to maintain appropriate oversight.

The regulator's assessment of Luminus' compliance with the viability element of the governance and financial viability standard has been downgraded to reflect three key exposures that could impact on the group's viability.

Based on evidence gained from contact with the executive and a review of the latest financial forecast, annual accounts and quarterly survey, the regulator has assurance that the financial plans are consistent with, and support, the financial strategy of the provider. Luminus has met, and forecasts continuing to meet, funders' loan covenants and the business plan is fully funded.

The first exposure reflects the high debt burden in Luminus and is a legacy of the previous treasury decisions which drove the original governance downgrade. The servicing of this debt is contributing to annual deficits which are forecast to continue into the early years of the latest business plan. Luminus has incurred significant costs for loans which cannot be accessed until the provision of additional security is made available. Luminus has little unencumbered security and therefore is dependent on the flow of completed new properties for this purpose. No funds have been released during 2014-15 and the level, timing and availability of future security remains uncertain.

The second exposure relates to a significant investment in a special purpose vehicle, from which the group is due a return in the form of properties provided at cost and interest on the principal sum invested. Due to trading difficulties in the company ultimately responsible for delivering these returns, and restrictions imposed by its lenders, minimal payments of interest have been made to Luminus since 2013. While the current business plan anticipates receipt of investment income resuming annually from 2016-17, the timing and amount of such income remains uncertain and without this Luminus will incur continuing deficits for a further two years. In addition, Luminus has two significant loan repayments due in 2016-17 and 2017-18 to its principal lender, and the cash position and ability to repay these loans, should the investment income not materialise, remains tight.

Thirdly, a number of key assumptions used in the base business plan are relatively tight, including a very limited allowance for future cost increases, which may prove difficult to sustain over the medium to longer term. Similarly, the forecasts make minimal allowance for the impact of welfare reform in future years, with rent losses expected to remain very close to their current level. While this reflects Luminus' experience to-date, our judgement is that it makes no allowance for the on-going roll out of further welfare reform measures.