

TAILORED PERFORMANCE AUDIT REPORT

YORKHILL HOUSING ASSOCIATION (1988) LIMITED

6th, 11th, 13th and 18th December 2001

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YORKHILL HOUSING ASSOCIATION (1988) LIMITED PERFORMANCE ASSESSMENT SUMMARY

a. Introduction

This report presents the findings of the Performance Audit of Yorkhill Housing Association (1988) Limited, by Communities Scotland's Regulation staff.

Why We Carry Out Performance Audits

The aim of Communities Scotland as regulator is to promote quality and continuous improvement in housing services for the benefit of current and future tenants. "Performance Standards for Registered Social Landlords" and the Performance Audit process are key elements in achieving that aim. These "Performance Standards" have been developed in consultation with the Scottish Federation of Housing Associations (SFHA) and set out the performance expectations for Registered Social Landlords (RSL). They are the frameworks against which organisations should assess their own performance and against which we will assess performance during a Performance Audit.

The Performance Audit process is designed to provide us with an in-depth assessment of how well the organisation meets "Performance Standards" and of how effectively services are managed and delivered.

The Performance Audit provides the RSL with an external, informed view of how well its services are being delivered and what it can do to further improve its performance.

Who carried Out the Performance Audit?

Kate McLardy, Performance Auditor with Communities Scotland, carried out this Performance Audit.

How and when was The Performance Audit carried out?

The Performance Audit process began in November culminating in a visit to the Association on 6th, 11th, 13th and 18th December 2001. Having examined briefing material requested from the Association, the Performance Auditor developed an understanding of the Association's operating context and decided what she wanted to look at and what techniques she would use to find out more. A number of techniques were employed to get behind the paperwork and assess the service from a resident perspective including:

- Talking with staff who deliver the service;
- Examining random samples of files and cases;
- Reality checking what happens in practice;

- Getting briefings from other organisations which work with the Association, for example, the Local Authority and Housing Association Ombudsman;
- Meeting with Committee Members to discuss their views about the Association's services and
- Touring the area of operation.

The outcome of the Performance Audit is this report. It presents our findings and the grades awarded for the performance achieved.

b. Definition of Grades

The grades summarise performance in the following way:

Grade A High quality of compliance with all standards assessed.

Grade B A very good compliance with most standards assessed.

Grade C A satisfactory compliance with most standards.

Grade D A poor performance.

c. Context

Yorkhill was registered with Scottish Homes in 1988. The Association's aims are to improve the quality and variety of social rented housing within its area by providing effective affordable property management services. The Association's housing is popular. It has a current stock base of 347 units, of which 115 tenants have the Right To Buy (RTB). Demand for housing in the area is high and stock continues to be depleted through RTB sales. The Association has lost 20% of its original stock base resulting in increasing diseconomies of scale in terms of staff numbers and cost efficiencies.

In addition a further 264 properties are managed via the provision of a Factoring service.

Yorkhill have been designated the Local Housing Organisation (LHO) to manage the proposed stock transfer of 198 houses from Glasgow City Council to Glasgow Housing Association (GHA). Following the outcome of this the Association may seek to progress a merger to address long-term viability concerns.

This is a tailored audit. Not all performance standards were assessed and the audit was scheduled over 4 days to take cognisance of the particular pressures facing the Association at this time.

d. Overview

Yorkhill has retained the overall 'C' grade that was awarded at the previous Audit in November 1999. This grading demonstrates satisfactory performance overall, and a satisfactory level of compliance with most performance standards assessed. While performance in Housing Management has improved, Maintenance has achieved a poorer grade than at the previous Performance Audit. Importantly this has been achieved at a time when the organisation is preparing for significant change and the Director was on maternity leave.

The main body of the report highlights performance in each functional area and provides a summary detailing the issues that have influenced the grade awarded for that function. Highlighted in this section of the report are factors that have influenced the overall grade:

- The Association has taken positive steps to address viability concerns. However, it is imperative that the Management Committee effectively manages this process;
- Better practice in the area of allocations has been adopted and performance in arrears control and void management is good;
- Most of the recommendations of the previous Performance Audit report have been carried out;
- Administration of the gas-servicing contract requires improvement. The Association must demonstrate compliance with the Gas Safety (Installation and Use) Regulations 1998;
- The Association continues to suffer from diseconomies of scale due to a depleting stock base and relatively high staff numbers and costs. It is important that the Association improves cost efficiencies;
- Ongoing development of the new IT system has taken up a lot of staff time. However, this provides scope for improvements in efficiencies and information management;
- Strategic planning and risk assessment could be more robust. A Resident Participation strategy should be prepared and a framework considered to maintain an up to date stock condition profile;
- Levels of service and the cost of providing the Factoring service should be reviewed to improve cost effectiveness;
- The Association continues to have 'above average' exposure to risk. A strategy is required to build up cash balances.

e. Grading

Grades have been awarded to each function and overall as follows:

FUNCTION	GRADE
Governance and Accountability	B
Housing Management	B
Maintenance	C
Development	N/A
Financial Management	C
OVERALL GRADE	C

f. Conclusion and follow-up Strategy

The Association is required to produce an action plan to address the findings contained in this report for submission to Communities Scotland within three months. We are currently finalising the timing of future Performance Audits under the Single Regulatory Framework. The timing of Yorkhill's next Audit will be based on this cycle and also on our review of progress against the action plan and other performance information.

This report is not intended to be used by, nor will Communities Scotland be responsible for any action taken by, any third party in response to the report.

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Regulation and Inspection
Communities Scotland

Draft Report issued: 21 January 2002
Final Report issued: 25 February 2002

PART A: GOVERNANCE AND ACCOUNTABILITY

A2 GOVERNING BODY

1. The Association revised its decision making structure in July 2001. The Housing Management and Maintenance sub-committees have been disbanded and replaced by Audit, Staffing/ Appeals and Health and Safety sub-committees. The Management Committee meets monthly with quarterly meetings dedicated to operational monitoring and the remainder looking at strategic issues and reviews. The senior staff management team attend meetings to speak to their performance reports or policy review papers. Remits, incorporating standing orders, have been drawn up; although further consideration is to be given to the Audit sub-committee remit. It is too early to assess the effectiveness of the new decision making structure but this will be reviewed by the Association in July 2002.
2. A number of special meetings also take place. Yorkhill has been designated the Local Housing Organisation (LHO) to manage the proposed stock transfer of 198 houses from Glasgow City Council to Glasgow Housing Association. Following the outcome of this the Association may seek to progress a merger to address its long-term viability concerns. Demand for housing in its area of operation is high and stock continues to be depleted through Right to Buy (RTB) sales. The Association has lost 20% of its original stock base resulting in increasing diseconomies of scale in relation to staff numbers and cost efficiencies.
3. Servicing of Committee is generally satisfactory, however, on occasion management of Committee meetings could be more effective. Reporting on important issues has been verbal or a late paper has been presented on the evening of a meeting. The Management Committee should continue to satisfy itself that it receives all necessary information to allow a reasoned and justifiable basis for decision-making and demonstrate accountability.
4. The Management Committee itself consists of 11 members, 7 of whom are tenants. The Committee is well balanced and a wide range of skills exists. Members actively participated in the meeting attended as part of the Performance Audit and a lively discussion took place.
5. Average attendance at committee meetings in the last financial year was 68%, which is short of the 75% target set, and some meetings have been inquorate. Notwithstanding this, there is a clear commitment from members and it is recognised that as well as there being additional special meetings, 4 members have recently experienced serious health problems. The Association intends to recruit more members to the Management Committee to alleviate pressure on individuals.

6. The Association has a membership policy in place that is in accordance with its rules and good practice. Membership promotion strategies are channelled through newsletters, the annual report and tenancy sign-ups. The Association also intends having another 'Open Day' during 2002 and it is anticipated that membership will increase via the promotion of Yorkhill as the LHO. Monitoring and reporting in this area is good and will be enhanced to provide a comparison of general membership with the tenant profile.
7. The Association is weak financially with high management costs, cost indicators and difficulties funding major repairs. Long-term viability remains a threat due to the continued loss of stock and few development opportunities.
8. Taking account of this context and the potential risk to its long-term success, the Association has given further consideration to a merger. Should the Association decide to proceed with this option a business case will be presented for approval to Communities Scotland and close liaison maintained.
9. The Association has investigated the possibility of a merger with a number of organisations. While the process adopted has been fair, concerns are raised:
 - Committee members were anxious at the pace of the process and have decided not to pursue the merger further at this time but to focus on LHO activity;
 - All committee members do not have a full understanding of the merger status. A working group had been established to progress merger possibilities. It is imperative, however, that the full Management Committee controls and drives this process forward at an appropriate pace.
 - Members should ensure that each step of the way they are fully aware of all proposals and clear on their implications, for example, in relation to constitutional and governance arrangements. The interests of present and future tenants should be considered, public investment in the housing stock protected and the reputation of Yorkhill in the local community upheld. Regard should also be had to maximising community empowerment, encouraging tenant involvement, facilitating regeneration and social inclusion and delivering continuous quality improvement.

A3 OPERATIONAL MANAGEMENT

10. The Association's organisational and planning objectives are detailed in the Internal Management Plan (IMP). The plan is used as a working tool and is updated on an annual basis. While it is prudent to have an annual

review it is important that the IMP has a focus beyond the year ahead to assist longer term planning. A reasonable planning horizon is 3-5 years. Performance against the plan is assessed and quarterly monitoring reports to the Management Committee measure progress against the strategic objectives and targets set.

11. The Association's approach to performance monitoring continues to be good with ongoing development of reporting techniques and systems. The Association should continually review its targets to ensure they are appropriate, challenging and result in continuous improvement.
12. Tenant satisfaction remains high with 87% of respondents in the 1999 Tenant Satisfaction Survey satisfied overall with Yorkhill as a landlord. 93% believed that the Association was good at keeping them informed while 72% of tenants considered the Association good at taking account of their views. Efforts should continue to improve this aspect.
13. Risk Assessment is acknowledged as an essential component of business planning and the Association's Risk Management strategy highlights potential risks. However, as identified at the previous Audit, this could be further developed by analysing specific risks, prioritising their likely severity and identifying actions required to reduce the possibility of risks materialising. The Association is endeavouring to raise the profile of risk management throughout the organisation by embedding the concept of risk into all its policies and procedures. Linking the IMP to the Risk Management strategy and the Internal Audit process would consolidate the planning framework and assist the Association draw up a programme of future internal audit. An audit needs analysis is due to be carried out in April 2002.
14. The Association makes appropriate use of internal audit to demonstrate continuous improvements in service delivery. Work is currently ongoing to address concerns raised in the July 2001 report. This includes Health and Safety issues and the development of an emergency plan.

A5 ETHICAL PRACTICE

15. The Association's complaints policy and associated procedures are comprehensive and based on the Scottish Federation of Housing Association's Model. The Housing Association Ombudsman commended the procedure in its facilitation of people who have special communication needs.
16. Compliance with the Committee Code of Conduct is a condition of membership. The Code is comprehensive and will be updated in April 2002 to take account of the Association's 'Section 15' policy. Section 15 of the Housing Association Act 1985 has now been replaced by Section 63 of the Housing (Scotland) Act, 2001. The Association will revise its policy and procedures accordingly and in line with the new Performance Standards effective from April 2002.

17. The Association has appropriate policies on Gifts and Hospitality and Openness and Accountability, with use made of confidential reports.
18. A number of register checks were made as part of the Audit. A new 'Section 15' register is being introduced to begin a more systematic and relevant recording methodology following the discovery of missing pages in the current register. The Association is satisfied however that information has not been removed.

Governance and Accountability: Performance Assessment Summary

A 'B' grade was awarded at the time of the last Performance Audit and this has been retained. Most of the recommendations of the previous Audit have been carried out and compliance with performance standards is generally good. Acknowledging the threat to long-term viability, positive steps have been taken.

The Association is currently focusing on its potential role as a Local Housing Organisation and if successful will take on the management of an additional 198 properties. Following the outcome of this the Association may seek to progress a merger with another organisation.

While the process to investigate a possible merger has been fair, there is some concern regarding its robustness. It is imperative that the Management Committee controls, understands and effectively manages this process. Risk assessment should be more robust with focus on an effective long-term solution to the Association's viability threat.

PART B: HOUSING MANAGEMENT

B1 ALLOCATIONS

1. The Association has reviewed its Allocations Policy and removed restrictive practices highlighted at the last Performance Audit. The Policy is of a good standard and generally accords with Raising Standards in Housing.
2. Administration and working practices have improved. The housing list is permanently open and all applicants receive an application form on request. The introduction of a computerised allocation system has reduced some of the manual work previously undertaken and reviews of the housing list are carried out annually. Applications are currently assessed within a target of 25 days. This is high and it is recommended that the Association reduce this target to reflect actual practice.
3. Reporting is developing with emphasis to be placed on performance monitoring and benchmarking. The source of allocation (by direct list, nomination or transfer) is reported monthly to Committee. Consideration should be given to reporting against the percentage targets set and the policy objectives. It is recommended that property addresses be removed from all reports.
4. The average time to re-let a property to 31 March 2001 was 11 working days. While this is up on the 7 days reported to 31 March 2000, this continues to represent good performance. Samples of allocations made were examined and were found to be pointed in accordance with the policy. Applicants were however formally given just 2 days notice from the offer of accommodation to the tenancy start date. This is considered too tight a timescale and it is recommended that robust procedures are introduced to ensure that properties are pre-allocated and that tenants provide the required 28 days termination notice.

Nominations

5. A written Nominations Agreement is now in place with Glasgow City Council, which will be reviewed in February 2002. Practice in this area is generally satisfactory, notwithstanding the relatively low number of properties allocated. A binding 100% nomination arrangement exists however for the sheltered housing unit. While practice is for the Association to effectively propose nominations for the unit, it is suggested that this position is reviewed with the Local Authority and formal liaison meetings established. It is recommended that Committee are provided with an annual report on nomination outcomes against targets.

B2 MANAGEMENT OF VOIDS

6. Very good performance is achieved in void management. The Association's target is to re-let void properties within 15 working days while the void rent loss target is set at 1% of annual rent receivable. As the table below illustrates, the average re-let time in 2000/01 is below the peer group median and comfortably within the Association's target. Rent loss through voids is also below the median and well within target. Given that performance continually exceeds targets set, it is recommended that targets are reviewed in order to strive for and demonstrate continuous improvement.

YORKHILL HA (1988) LTD.	1998/99	1999/00	2000/01	Peer Group Median* 2000/01
Average Re-let Time (working days)	9.3	7	10.85	18
Void Rent Loss (%)	0.5%	0.2%	0.3%	1.0 %

* Peer group 4 selected in the Annual Performance & Statistical Return (APSR): The Association operates in pre-1919 urban areas with more than 250 units.

7. A void budget is to be established and decoration allowances reviewed in order to standardise the quality of re-let accommodation. In reviewing this area the Association should endeavour to reduce the year on year increased expenditure on lettings.
8. Reporting on voids is generally good but could be further developed to include performance-monitoring information on void outturns.

B4 RENTS AND OTHER CHARGES

9. The Rent Policy is satisfactory. It could be enhanced however by the inclusion of a clear definition of the target group to be housed and Tenant Income data, which assesses affordability to the Associations tenants. An affordability exercise is normally carried out on an annual basis however this was not carried in 2001. Rent comparisons have been made with neighbouring Associations and the Local Authority. These show that rent levels are largely comparable.

10. A stair cleaning service is provided for mainstream tenants and services are provided to sheltered housing tenants. Costs are recovered through the service charge element of the rent. Charges are reviewed annually taking account of actual and anticipated costs and tenants are advised of the charges along with the annual rent review letter. The Service Charge policy itself is satisfactory though could be made more user-friendly. The Association should give further consideration to introducing an equalisation account for service charges and factoring.
11. Factoring represents a significant part of the Association's business with 264 houses factored. The majority of owners are signed up to a factoring agreement and work is ongoing to ensure that appropriate Deeds of Conditions are in place. A factoring database has been established and work is ongoing to implement the computerised package that will link to the finance system for invoicing purposes. Factoring invoices will be issued 6 monthly (as opposed to quarterly) with effect from May 2002 in accordance with the revised policy.
12. Factoring as a cost centre continues to make a significant loss despite attempts to recover outstanding debt. Factoring services and related costs are currently under review and staffing resources have recently been reallocated to help ensure more accurate cost centre allocation.
13. The Factoring Policy is satisfactory however key changes to the service should only be introduced following consultation with affected owner-occupiers. A charge for late payments was introduced without consultation and it is recommended that this practice is reviewed.
14. A Resident Satisfaction survey was carried out in March 2001 and overall satisfaction levels were high. 81% of respondents expressed positive views on communications and quality of service. Two thirds thought that the factoring charge represented good or very good value. Less than a third however were aware of the Association's complaints procedure and steps should be taken to address this. The Owners Handbook is currently being updated and will give details of existing factoring services.

Rent Arrears

15. Rent arrears performance is good. Notwithstanding an increase to 31st March 2001 from 31st March 2000, performance remains below the peer group median, as illustrated in the table below:

YORKHILL HA (1988) LTD.	Non-technical arrears	Peer Group Median*
1998/99	2.2%	2.4%
1999/00	1.2%	2.8%
2000/01	2.1%	2.8%

* Peer group 4 selected in APSR: The Association operates in pre-1919 urban areas with more than 250 units.

16. It is recommended that staff continue to monitor performance. Reasons for the recent increase in arrears levels should be examined and the upward trend reversed.

B6 QUALITY OF CUSTOMER SERVICE IN HOUSING MANAGEMENT

17. Practice in this area is generally good. Newsletters are issued quarterly and a range of information leaflets is available. The Association is prepared to respond to the needs of a broad section of the community and will provide translation services, if required to do so. Ethnic monitoring and reporting takes place on application sources, housing needs and requirements and on allocations made. The report is quite lengthy however and could be simplified.
18. The Association intends to review the whole area of resident participation and communications. A Resident Participation strategy is to be prepared which will illustrate how views will be taken into account and detail proposals for consultation and information provision. The most recent Tenant Satisfaction Survey was carried out in 1999. A further survey is scheduled for April 2003. The last complete update of the Tenants Handbook was in January 1997 and is well overdue for review. The Association intends to review this in 2002 in line with the Housing (Scotland) Act 2001.

Housing Management: Performance Assessment Summary

The Housing Management function provides a good quality of service overall and has been awarded a 'B' grade which represents an improvement.

Specific areas of good performance include re-let times, void rent loss and arrears levels, with performance comfortably within the Association's targets and the peer group median. It is recommended that more exacting targets are set in order to demonstrate continuous improvement.

The Association has high demand for its properties and working practices in the area of allocations have improved. Formal nomination liaison meetings should be established and performance-monitoring information and reporting developed.

Ongoing effort is required to reduce factoring service losses with an exercise to be carried out to identify where improvements can be met.

Overall compliance with performance standards is good.

PART C: MAINTENANCE

C1 LEGAL REQUIREMENTS AND POLICIES

1. Further work is required on the development of written policies and procedures to ensure compliance with good practice. Areas outstanding since the last Performance Audit include landlord and tenant responsibilities and delegation of staff authorities. The Repairs Policy itself is satisfactory, though could be further developed to include an approach on consultation with owner-occupiers.
2. The Association suffers exposure to risk from owners who cannot or will not pay for repairs. This is particularly problematic when communal work is undertaken due to the fact that the Association's stock is mainly tenements. The Association should carefully follow its procedures on actions to be taken in such circumstances.
3. Administration of the annual gas-servicing contract is poor. The practice is to issue recorded delivery letters on an annual basis for access. Cases of 'no access' are not followed up. Sample checks confirmed that a number of gas safety certificates had long since expired. There was a gap of upwards of 8 months since the expiry of 19 certificates and a further 17 properties were overdue a gas service by approximately 2 months.
4. The Association must take control over this area, pursue contractors timeously and develop a mechanism for dealing immediately with situations of no access. A system should also be established to ensure that any follow up work arising from inspections is carried out and adequately recorded. It is imperative that the Association complies with its responsibilities under the Gas Safety (Installation and Use) Regulations 1998. It is recommended that a procedure be formalised in this regard.

C2 RESPONSIVE REPAIRS

5. Reported performance in this area is good. Quite demanding targets have been set, resulting in a high level of service to tenants. Response times are 4 hours for an emergency repair, 1 day for urgent and 3 days for routine repairs. Performance in each category is good, however the Annual Performance and Statistical Return (APSR) figures could not be validated. In this regard staff are endeavouring to ensure that a robust system is established for April 2002.
6. Staff carry out pre-inspections for almost half of all repairs reported. While an essential performance-monitoring tool, it is important to strike a balance and commit an appropriate level of staff time. The approach adopted is

somewhat ad-hoc and should be reviewed. Attempts should be made to reduce the level of pre-inspections and a clear set of criteria is required to describe the circumstances when inspections will be undertaken.

7. Staff respond almost immediately to tenants' repair requests and in some cases, in breach of policy, do not issue repair notification confirmation. It is recommended that repair notifications are issued for all repairs. These should record the target completion time and the contractor's details. This would assist with monitoring and measuring contractor's performance. There is still reliance on the contractor's assessment of whether a target has been achieved. This practice should be supplemented by an independent measure with findings fed into the annual performance review.
8. It is the Associations preference to use local and small contractors for responsive repairs. It is important that value for money is achieved and a quality service demonstrated from this form of procurement.

C3 PLANNED MAINTENANCE

9. The Association's stock condition information base is derived from Life Cycle Costings (LCCs) that are in place for all properties. The planned programme of stock condition surveys to update the information has not however been carried out and it is the Associations' intention to re-start surveys. The LCC information is currently held on an excel spreadsheet. This will be put onto the computerised maintenance system that has an easy update facility. Current stock condition information is a pre-requisite to robust planning for the maintenance programme and long- term financial projections. An appropriate framework should be considered to maintain an up to date stock condition profile.
10. Results of the LCC exercise have been incorporated into 30-year financial projections. These are updated in line with proposed changes in major repairs spend on an annual basis. The projections have not however been carried out on a cash flow basis. This would be a useful exercise for the Association to carry out to highlight where cash shortfalls might occur.
11. A 5-year maintenance plan is in place and cyclical and major repairs programmes have been developed. Cyclical maintenance work has been completed on time and within budget. Reporting to the Management Committee is developing with more use to be made of computer generated reports and performance monitoring information.

C4 ACCOUNTABILITY IN PROCURING MAINTENANCE WORK

12. A Code of Conduct is issued to contractors with a standard application form for admission to the approved list of contractors. This incorporates a 'section 15' declaration (Section 15 of the Housing Association Act 1985 has now been replaced by Section 63 of the Housing (Scotland) Act,

2001), insurance details, tax status, Health and Safety and equal opportunities compliance. The conduct expected of contractors is laid out in the Code and all contractors have signed up to it. A number were examined as part of the Audit and practice in this area was found to be satisfactory.

13. The approved list of contractors is reviewed on an annual basis. There remains scope however to monitor individual contractors performance and link this into the annual review.
14. Allocation and distribution of work is satisfactory. The computerised maintenance system automatically rotates work between contractors and selects the preferred contractor, aiming to ensure an equitable distribution. However staff can use an over-ride facility to select an alternative contractor. The use of this facility should be minimised and clear criteria is required to note exceptional circumstances when its use may be appropriate.
15. Ongoing development of the new IT system is planned. This includes:
 - Splitting response times into individual categories (currently only the overall position is available)
 - Computerising the annual gas servicing programme and
 - Introducing reports on individual contractors performance.
16. The Tender Register was examined as part of the Audit and a sample check of documentation carried out. While practice was found to be appropriate, the Tendering Policy is overdue for review.

C5 QUALITY OF CUSTOMER SERVICE IN MAINTENANCE

17. Performance in this area is good and satisfaction levels are high. The most recent Tenant Satisfaction Survey carried out in 1999 recorded 90% overall satisfaction levels with the repairs service. The lowest area recorded was quality of repairs with 75% satisfaction recorded. The Association has sought to address this by introducing a freepost tenant satisfaction survey form for all reactive repairs in April 2001. The period April to September 2001 achieved a response rate of 53% with very high satisfaction levels of 97% achieved.
18. Efforts to gauge satisfaction levels are continuing and a range of information is provided on the maintenance service through leaflets and newsletters.

Maintenance: Performance Assessment Summary

Overall performance in this area has slipped since the last Performance Audit when the Association received a 'B' grade. A 'C' grade is now awarded and a number of suggestions for improvements are detailed in the main body of the report. Our main concern is the approach to managing the gas-servicing contract and failure to comply with the Gas Safety (Installation and Use) 1998 Regulations.

While contractors' performance in meeting repairs response times is good, the figures in the Annual Performance and Statistical Return could not be validated and suggestions are made to improve working practices. Robust systems are required to monitor individual contractor's performance and an equitable distribution of work should be demonstrated. Ongoing development of the new IT system provides scope for improvements in efficiencies and information management.

Life Cycle Costings are in place for all stock and the Association should consider an appropriate framework to maintain an up to date stock condition profile in order to accurately determine future major repairs requirements and expenditure.

The quality of customer service is very good with high satisfaction levels achieved.

PART E: FINANCIAL MANAGEMENT

E1 FINANCIAL PLANNING AND RISK MANAGEMENT

1. Communities Scotland Regional Finance Office carried out a Financial Viability Risk Assessment (FVRA) in conjunction with the Performance Audit. The FVRA concluded that Yorkhill continues to have an 'above average' exposure to risk. The FVRA findings are reflected where appropriate in this section of the report and in the grade awarded for financial management.
2. A SWOT analysis has been carried out as part of the FVRA. Key areas of strength identified are that the Association has high demand for its properties and has experienced staff. Opportunities include Local Housing Organisation (LHO) stock management. Yorkhill has been awarded LHO status, and may manage 198 units on behalf of Glasgow Housing Association. Viability remains a threat due to the continued loss of stock, long-term difficulties in funding major repairs and few development opportunities. Weaknesses remain the loss of stock through the Right to Buy (RTB) and high management costs due to relatively high staffing levels.

Annual Budget

3. The approach to budget setting is good. Budgets are prepared annually with a mid year review carried out. To help ensure that costs are accurately allocated, it is recommended that staff complete timesheets.
4. Regular quarterly reports are presented to the Management Committee showing both the budget and cash flow comparisons of actual against budget. A 5-year budget is included in the Internal Management Plan and a 30-year assessment is updated annually. It is recommended that 5-year cash flows are also prepared in order that the Association can clearly see how its cash position is building up year on year. Current projections indicate cash deficits, before tax, for approximately 10 years.
5. It is important that the Association balances service provision with the cost of providing services. The high cost of providing services is reflected in the day to day maintenance costs, where direct repairs expenditure is 44% of spend and salaries and overheads represent 56% of spend (annual accounts to 31st March 2001). In addition, factoring continues to make a significant loss. This income, despite being relatively small, makes an important contribution to the Associations turnover. A viability analysis of service provision is to be carried out together with an analysis of the operational structure and planning framework. The Association should complete this at an early date.

Rent Increase

6. Yorkhill uses a formula for rent setting to arrive at the percentage annual rent increase that is considered in conjunction with the current rate of inflation. It is recommended that the Association also takes account of projected major repairs expenditure in the rent setting procedures. It is important to build up cash balances to meet future planned maintenance spend.
7. Yorkhill has made little progress since the last Performance Audit in building up cash reserves and did not implement a proposal to calculate revenue expenditure requirements over a 3-year period and increase rents accordingly to generate additional cash. High fixed costs means that there has been no real increases in cash balances in the last 3 years. The Association acknowledges the need to control and preferably reduce costs and should consider rent setting over a longer time frame.

Long Term Financial Projections

8. 30-year financial projections are in place but require to be fully integrated into the overall planning framework. RTB sales are a significant problem for Yorkhill, since there is continual erosion of the stock base without a corresponding reduction in management costs. The 30-year projections assume 5 sales per annum for the first 10 years. Assumptions should be extended and sensitivity analysis carried out on various RTB sale scenarios to project the likely future impact and consider the 'worst case' scenario.
9. Sensitivity analysis should also be carried out to examine the effects of various situations, including Section 54 tax withdrawal, varying inflation rates, the cost of replacement office accommodation, anticipated voids and repairs expenditure levels.

Treasury Management

10. Yorkhill has proposals to review its Treasury Management policy but has not yet carried this out. The Association may have to borrow to fund future planned maintenance, but at present there is no definite strategy.
11. Exposure to interest rate changes is not significant and the Association intends to investigate the potential for savings in loan interest payments through the re-packaging of its loans. Yorkhill has a relatively small amount of borrowing and there is an appropriate balance of fixed and variable loans. There is scope, albeit limited, for additional borrowing over the next 30-years to finance capital projects or major repairs.
12. Further work is required on an investment strategy to enable investment options to be more extensively explored. This was a training need identified by staff at the time of the last Performance Audit and has not yet been addressed.

13. The current insurance cover is due to expire in April 2002 when it is recommended that a full tendering exercise be carried out. A more co-ordinated approach will be sought by the Association to ensure that the insurance provision is all- encompassing.

E2 FINANCIAL CONTROL

14. Policies and procedures in Financial Management are limited in scope. It is recommended that these are reviewed and a comprehensive set of Financial Regulations introduced.
15. Annual internal and external audits are carried out with subsequent recommendations implemented and actions monitored by the Management Committee. The Association did however delay in formally responding to the Auditor's letter due to an internal misunderstanding. It is important that a timeous response is made in the future.

Financial Viability Risk Assessment

16. The position regarding risk has changed little since the last Performance Audit. A combination of high fixed costs, loss of stock through RTB and lack of development opportunities puts Yorkhill in a vulnerable position. Additional stock to manage as a LHO will help the position, but may not provide a lasting solution. The possibility of a merger with another organisation may also improve the overall position.
17. Given the loss of properties (there are currently 347 rented) and the current staffing level (11 members of staff at March 2001) the Association suffers from diseconomies of scale. The Annual Performance and Statistical Return (APSR) to April 2001 recorded that staff costs account for 41% of the Associations expenditure with 20% expenditure on office overheads. As illustrated in the table below, the Association is performing poorly relative to the peer group median in these 3 key areas of financial performance. While it is noted that these peer group comparisons are not made within a homogenous group, it is important that the Association carries out its own analysis and benchmarking in this regard.

YORKHILL HA (1988) LTD.	1998/9	1999/0	2000/01	Peer group Median* 2000/01
Average administration cost per tenancy	£1037	£1187	£1267	£597.70
% Revenue income spent on staff	37.4%	42.7%	40.9%	27.0%
% Revenue income spent on overheads	16.8%	21.3%	20.5%	7.7%

* *Peer group 4 selected in the Annual Performance & Statistical Return (APSR): The Association operates in pre-1919 urban areas with more than 250 units.*

18. The staffing complement may have to be reviewed if the levels of RTB's continue at the historical rate and/or the proposed LHO and merger fails to reach fruition.

Finance: Performance Assessment Summary

The Financial Viability Risk Assessment concluded that the Association continues to have an above average exposure to risk. High levels of Right to Buy sales and lack of development opportunities threatens the Association's long-term viability. A 'C' grade is considered appropriate at this time.

Long-term projections show that Yorkhill is unable to meet major repairs commitments in the future. However, the projections are not prepared on a cash-flow basis and there is no strategy in place to allow a build up of cash for future maintenance funding. Yorkhill needs to put in place a Treasury Management policy and look at long-term cash requirements in more detail. Further work is also required on sensitivity analysis.

The approach to budget setting is generally good, however the Association has adopted a 'year on year' approach to rent setting that does not facilitate long-term cash generation. Rent setting should be considered over a longer time frame. A robust financial framework should be adopted and efforts made to improve efficiencies in key financial performance indicators where performance is weak.

Glossary of Terms

Annual Performance and Statistical Return (APSR)	This is a questionnaire completed by RSLs and sent to Communities Scotland annually. It provides information about the organisation's structure; governing body; activities; policies in place; key performance indicators; the type of housing provided and the rents. Communities Scotland uses this information to keep the register up to date; track the performance of RSLs and to produce performance benchmarks.
Benchmark	A process used by organisations to systematically measure service processes and performance and then compare them with the performance of others in order to meet good practice. It is a management technique for improving the efficiency and effectiveness of work processes.
Housing List	A list of all applicants for social housing which is used by the RSL to allocate its housing stock.
Life Cycle Costing	A method of calculating the cost and timing of the repairs to, and replacement of, major building components.
Ombudsman	The independent body appointed to investigate individual complaints against RSLs and decide whether or not they should be put right and what action should be taken.
Peer Group	A group of organisations facing similar tasks and challenges with which comparisons can be made. These could be in e.g. size of housing stock, geography and deprivation/prosperity.
Performance Indicator	A measure of how a RSL is achieving its objectives. Performance Indicators can be compared with a pre-set standard (a benchmark) or with other organisations.
Planned Maintenance	Maintenance which is planned to take place at a certain time but which will not be required to be carried out regularly. Mainly one-off contracts e.g. window replacements.

Procurement	The way an organisation obtains services or materials from other organisations or agents.
Reactive Repairs	Also called responsive maintenance or day-to-day maintenance. This is maintenance work carried out as the problem arises and is reported to the local authority.
Re-lets	Lets made to the second or subsequent tenant. Distinguished from new lets that are made when the property is first built or modernised.
RSL	A landlord providing social rented housing that is registered and regulated by Communities Scotland.
Scottish Federation of Housing Associations (SFHA)	The membership body for Housing Associations and Co-operatives in Scotland.
Standing Orders	A set of rules drawn up by the RSL, which set out the basis on which business should normally be dealt with.
Stock condition survey	A survey of stock to establish the level of existing defects and to allow the RSL to project future repair needs.
SWOT Analysis	An assessment of the RSL's strengths and weakness, the opportunities available to it and threats which may affect performance.
Void	A property without a tenant. Voids occur in the period between one tenant leaving and another taking over the tenancy.