

## Regulation Plan

This Regulation Plan sets out the engagement we will have with Cube Housing Association Ltd. Our *Guide to How We Regulate* explains more about our assessments and the purpose of this Regulation Plan.

### Regulatory profile

Cube Housing Association Ltd, (Cube) was registered in 1990. It owns and manages over 3,360 tenancies including 233 non residential properties and provides factoring services for 1,162 properties. It employs 87 staff and had an annual turnover of just under £10.3 million in the year ended 31 March 2008. Cube has two wholly owned, unregistered subsidiaries, Cube Innovations Ltd and Milton Community Homes (MCH). MCH is a local housing organisation, registered in April 2004, to manage stock on behalf of Glasgow Housing Association.

Cube Housing Association is currently one of the largest developers of social housing in Scotland. It is expected to receive considerable public subsidy in the form of housing association grant (HAG) over the period 2008-11.

The key challenge facing Cube over the last year has been finding a way to fund investment in its stock to meet the Scottish Housing Quality Standard (SHQS) by 2015. We have had intensive engagement with Cube around its financial position and associated ability to meet the Standard. It still has significant progress to make between now and 2015 to make sure it meets the target. Around 69% of its housing stock does not meet the SHQS. Although its annual performance and statistical return for 2008/09 does not include a works programme beyond 2011 it is actively pursuing options to bring its remaining stock up to the standard. An important element will be the proposed construction of a combined heat and power station in the Wyndford area of Glasgow.

In the light of its SHQS and other investment activities we need to be assured Cube can demonstrate that it can remain financially viable over the short to medium term across a range of scenarios. We have reviewed Cube's business plan and the supporting documentation but we require additional information including its treasury management strategy to complete our assessment. We are also aware that Cube has been revaluating the scale and nature of its development activity.

Cube's performance in re-letting empty properties has deteriorated since 2007/08. Reported performance for all voids in its 2008/09 annual performance and statistical return (APSR) is poor in comparison to the sector performance.

### **Our engagement with Cube Housing Association – Medium**

1. We will continue to liaise with Cube to clarify business planning assumptions and be assured about its overall financial capacity and viability. As part of this we will be requesting information from Cube by September 2009 that is likely to include:
  - Full 30 year projected cash flows
  - Bank covenants and its treasury management strategy
  - The results of sensitivity analysis of its key assumptions
  - Updated information about the progress of plans to meet the SHQS
2. We will meet senior staff from Cube once we have reviewed the information provided to discuss our findings and what further regulatory activity we feel may be necessary
3. We require Cube to produce an improvement plan to address the deteriorating void performance. This plan should be provided by September 2009.
4. Cube should continue to alert us to notifiable events and seek our consent as appropriate. It should provide us with the annual regulatory returns we review for all RSLs:
  - audited annual accounts and external auditor's management letter.
  - loan portfolio return.
  - five year financial projections, including all SHQS costs; and,
  - annual performance and statistical return.

This plan will be kept under review and may be changed to reflect particular or new events. The engagement strategy set out in this plan does not restrict us from using any other form of regulatory engagement to seek additional assurance should the need arise. Our guides to how we regulate, inspect, and intervene and other relevant statistical and performance information, can be found on our website at [www.scottishhousingregulator.gov.uk](http://www.scottishhousingregulator.gov.uk).

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We have decided what type of engagement we need to have with this organisation based on information it provided to us. We rely on the information given to us to be accurate and complete, but we do not accept liability if it is not. And we do not accept liability for actions arising from a third party's use of the information or views contained in the Regulation Plan.