



Homes &
Communities
Agency

The Social Housing Regulator

March 2017

HCA Regulatory Judgement on Luminus Group Limited L4398

Including the following registered entities

Luminus Homes Limited LH4253
Oak Foundation L4399

Publication Details

Reason for publication

Governance downgrade

Regulatory process

In Depth Assessment

Please see the definitions in Annex 1 for more detail

Governance

G3 (Non-compliant)

The provider does not meet our governance requirements. There are issues of serious regulatory concern and in agreement with us the provider is working to improve its position.

Viability

V2 (Compliant)

The provider meets our viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

Key to grades

G1 / V1	Compliant
G2 / V2	Compliant
G3 / V3	Non-compliant and intensive regulatory engagement.
G4 / V4	Non-compliant, serious failures leading to either intensive regulatory engagement or the use of enforcement powers.

Provider Details

Origins

Luminus Group Limited (Luminus) is a non-charitable company and a registered provider. It owns and manages around 7,300 properties. The majority of its stock is for general needs with over 500 units being specialised housing for older people. Luminus also provides hostel accommodation and related services, as well as training and other benefits within the community.

Registered Entities

Luminus has two registered subsidiaries: Luminus Homes and Oak Foundation.

Unregistered Entities

Luminus has two unregistered subsidiaries. The Ferry Project is a hostel and homelessness services provider. Luminus Finance provides strategic finance for the group. Luminus Finance has two further unregistered subsidiaries: a commercial development company, and a social enterprise company which provides services to the rest of the group.

Geographic Spread and Scale

Luminus operates mainly within the Huntingdonshire area of Cambridgeshire.

Staffing and Turnover

Luminus employed 296 staff (full time equivalent) and had a turnover of £44.7m in the year to 31 March 2016.

Development

Luminus has recently undertaken an outright sale programme (approximately 100 units in total) via its unregistered subsidiary Luminus Developments Limited, covering two development sites, one in London and one in Cambridge.

In addition, there is on-going development of units for rent and for affordable ownership, including some planned redevelopment of garage sites. Luminus's intention is to develop up to 100 properties per year.

Regulatory Judgement

This Regulatory Judgement downgrades our previous assessment of Luminus's governance rating published in March 2016 from G1 to G3.

The regulator has considered evidence gathered during the course of an In-Depth Assessment. Following that, the regulator lacks assurance that the board is maintaining effective control over Luminus and its activities. The systems in place to monitor and manage delivery of its plans and associated risks are not adequate and are not operating effectively. The board is receiving inadequate information, and has not demonstrated it is sufficiently challenging in considering the information it does receive. It has been unable to provide adequate assurance it is compliant with its chosen Code of Governance. There is a lack of effective oversight of performance of investment in external bodies. The board is not exercising its role with appropriate skill or diligence.

Luminus does not have an effective system of risk management. It has not assured the regulator that it understands adequately the risks it faces. Stress testing has been carried out but has not been adequately informed by an understanding of the housing market risks facing Luminus. Mitigations are not properly developed as financial impact is not robustly quantified and they are not effectively linked to risk scenarios or triggers. Material weaknesses in the information and material presented to the board have not been effectively challenged.

Luminus does not have an effective system of internal control. The internal audit programme is not effectively driven by understanding of risk. The board does not systematically follow up progress with known control weaknesses identified through recommendations from internal audit. An internal audit on gas found that the board had been given inadequate information. A very large number of properties had been without the statutorily-required Landlord Gas Safety Requirement certificates. (A separate Regulatory Notice has been issued in this regard.) The board did not inform the regulator and did not seek to understand the root causes of the failure.

The board is unable to explain compellingly how financial and governance arrangements operate effectively within the group's legal and governance structures. Via an intermediary company, Luminus has a £48m commercial investment in an external property development company. The board has not demonstrated it properly understands the risks and benefits of this investment, and whether it is delivering Luminus's objectives. The board does not receive sufficiently detailed information to allow it to effectively monitor and make decisions on the investment and has not effectively challenged that situation. Luminus is also unable to substantiate that it is compliant with its chosen Code of Governance in relation to the adequacy of its delegations framework and board recruitment.

These issues range across the governance elements of the Governance and Financial Viability standard and are linked by lack of challenge by the board of inadequate processes and assurance. The regulator has concluded that board members of Luminus are not discharging their duties with adequate skill.

The regulator's assessment of Luminus's compliance with the financial viability element of the governance and financial viability standard is unchanged. Luminus has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance. The regulator will continue to engage with Luminus in this respect.

Annex 1: Definitions of Regulatory Processes

In Depth Assessment (IDA)

An IDA is a bespoke assessment of a provider's viability and governance, including its approach to value for money. It involves on-site work and considers in detail a provider's ability to meet its financial obligations and the effectiveness of its governance structures and processes.

Stability Checks

Based primarily on information supplied through regulatory returns, a stability check is an annual review of a provider's financial position and its latest business plan. The review is focused on determining if there is evidence to indicate a provider's current judgements merit reconsideration.

Reactive Engagement

Reactive engagement is work which falls outside our planned programmes of work (i.e. scheduled IDAs or the annual Stability Checks). It involves us responding to new intelligence or a developing situation which may have implications for a provider's current regulatory judgement.

Stability Checks and Reactive Engagement

In some cases, we will publish narrative regulatory judgements which combine intelligence gained from both Stability Checks and Reactive Engagement.

Further Information

For further details about these processes, please see Regulating the Standards on <http://www.gov.uk/hca>.