



Llywodraeth Cymru
Welsh Government

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Welsh Government Housing Policy – Regulation

Financial Viability Judgement

Tai Ceredigion Cyfyngedig – L151

31 March 2015

Financial Viability Judgement

The Welsh Ministers have powers under the Housing Act 1996 to regulate Registered Social Landlords (RSLs) in Wales, in relation to the provision of housing and matters relating to governance and financial management. Part 1 of the 1996 Act is amended by Part 2 of the Housing (Wales) Measure 2011 (“The Measure”) and provides the Welsh Ministers with enhanced regulatory and intervention powers, concerning the provision of housing by Registered Social Landlords and the enforcement action that may be taken against them. The Welsh Ministers are publishing this Financial Viability Judgement under section 35 of the Housing Act 1996.

This report sets out the Welsh Government’s Financial Viability Judgement and is designed to provide the RSL, its tenants, service users and other stakeholders with an understanding of the RSL’s financial viability.

The term ‘Association’ has been used throughout the report to refer to Registered Social Landlords (RSLs).

Housing Regulation Team
Welsh Government Housing Division
Merthyr Tydfil Office
Rhydycar
CF48 1UZ

e-mail: housingregulation@wales.gsi.gov.uk



Description of the Association

Tai Ceredigion Cyfyngedig is registered under the Co-operative and Community Benefit Societies Act 2014 with charitable rules. It was created following a large scale voluntary transfer from Ceredigion County Council in November 2009.

The Association owns and manages over 2,200 homes, consisting of around 1,850 general needs homes and 350 sheltered accommodation places.

During 2015 the Association reported the achievement of Welsh Housing Quality Standard (WHQS). It also continued to develop new home and has brought 11 new homes into management in 2014/15.

For the year ending 31 March 2014, the Association's turnover was £9.6m (2013: £9.1m), its retained surplus was £0.8m (2013: £1.7m) and it employed an average of 138 staff (2013: 132) on a full time equivalent basis.

Overall Conclusion

Our judgement of the Association's financial viability remains unchanged from last year.

As at 31 March 2015, the judgement is:

Pass

The Association has adequate resources to meet its current and forecasted future business and financial commitments.

Our judgement is explained as follows:

1. The 30 year financial forecast has been prepared using a reasonable set of assumptions and shows the Association continuing to meet its lenders' covenants.
2. The Association has adequate secured loan facilities in place in order to fund its forecasted spending on property maintenance and improvements. It has sufficient income generating ability to service and repay such borrowings.

The Association currently has around 75% of its debt at a fixed rate of interest, thereby having a reasonable level of certainty in relation to this cost. This drops to around 50% during the 30 year forecast period. The assumptions made in relation to the debt at the variable rate of interest are reasonable.

3. The 30 year forecast shows the Association operating within the parameters of its facility; however the Association does have a tight business plan and therefore any changes in the underlying assumptions may have an adverse impact. The Association is aware of this and is monitoring its financial performance to ensure that it continues to operate within the required financial parameters.
4. The Group has reported achievement of the Welsh Housing Quality Standard in 2015 and has used stock condition survey information to inform the costs included in its 30 year forecast to continue to meet this standard.
5. The Association also has a small development programme which we will monitor as part of our regulatory engagement.
6. The Association's financial results to date and its 30 year forecast demonstrates that it does not rely on property sales and commercial activities to fund its operations.
7. The impact of the UK Government's welfare reforms, to date, has been within the expectations of the Association. Going forward, it has assumed that the current bad debt provision of 1.5% will be sufficient to accommodate the impact of the UK Government's Universal Credit provisions. We are satisfied that the assumptions made by the Association are reasonable given its current experience.
8. The Association receives £1.6m per year dowry funding from the Welsh Government. The Welsh Ministers currently intend to offer financial assistance for 29 years from the date of transfer (subject to the terms and conditions set out in the offer letter) and acknowledge that the Association's 30 year business plan is predicated on the assumption that financial assistance will continue to be offered for that period.

Sources of information and regulatory activity

The following information is received from Associations and reviewed by the Welsh Government:

- Audited annual accounts, including the internal controls assurance statement;
- External auditor's management letter;
- 30 year financial forecasts;
- Quarterly management accounts;
- Private finance returns;
- 5 year business plans;
- Welfare reform data collection;
- Internal audit reports;
- Board papers, as requested;
- Financial and risk management information collected through undertaking regulatory engagement.

This is in addition to regulatory engagement with the Association.

Basis of financial viability judgement

This judgement is based on information submitted by the RSL and our accumulated knowledge and experience of the RSL, its management and the RSL sector as a whole.

In preparing this report, the Welsh Ministers have relied on the information supplied by, or on behalf of, the RSL. The Board and the Directors of the RSL remain responsible for the completeness and accuracy of such information.

This report has been prepared for the RSL as a regulatory assessment. It must not be relied upon by any other party or for any other purpose. Any other parties are responsible for making their own investigations or enquiries.

The financial element of the regulatory assessment is undertaken throughout the year and culminates in a Financial Viability Judgement, which is issued to each RSL at the end of March each year.

There are three categories of Financial Viability Judgement: "pass", "pass with closer regulatory monitoring", or "fail".

Where the judgement is "pass with closer regulatory monitoring", the Welsh Ministers are of the view that additional work and/or scrutiny, is required to provide stronger assurance on financial viability.

Where a judgement of "fail" applies, the Welsh Ministers will have already been working closely with the RSL to address the underlying issues.

Annex 1: Glossary

Gearing is defined as the level of a company's debt, compared to its equity capital, usually expressed in percentage form. For housing associations, this is typically calculated as debt, divided by net assets and capital grants. Most associations have gearing covenants that they need to comply with as part of their loan agreements.

Interest cover is defined as the ability of a company to pay its interest cost on its outstanding debt. This is typically calculated as earnings before interest divided by interest payment. This is another common covenant that associations need to comply with as part of their loan agreements.