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Welsh Government Housing Policy - Regulation

Financial Viability Judgement

Tai Ceredigion Cyfyngedig – L151

March 2014

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

WG20492

Description of the Association

Tai Ceredigion Cyfyngedig is an Industrial and Provident Society with charitable rules. It was created following a large scale voluntary transfer from Ceredigion County Council on 30 November 2009.

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

Its current focus is the investment in its existing housing stock, to meet the requirements of the Welsh Housing Quality Standard (WHQS) by its target date of 2015. It has also commenced with a small development programme of new homes.

For the year ending 31 March 2013, the Association's turnover was £9.1m (2012: £9.7m) the reduction in 2013 is due to the accounting treatment of the dowry funding from Welsh Government rather than a decrease in the income level of the Association. Its retained surplus was £1.7m (2012: £2.8m) and it employed 132 staff (2012: 118).

Overall Conclusion

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

As at 31 March 2014, 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, at present, has 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 Association's 30 year forecast shows that it should continue to operate within the lenders' covenants under most scenarios.

4. The level of costs included in the forecast appears reasonable in order to deliver the WHQS by its target date of 2015. The Association has assumed that there will be a significant decrease in ongoing maintenance costs once it has achieved WHQS. Should the decrease not materialise, this may be a potential future risk to the Association's ongoing financial viability that will need to be monitored on a continual basis.

5. The Association commenced development of a small number of homes in 2012/13. Over the next two years, the level of development included within the 30 year forecast of 113 homes, is significant. The Housing Regulation team will monitor the progress of this as part of ongoing 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%, from 2013/14 onwards, 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 auditors' 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 housing association 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 association 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.