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Welsh Government Housing Policy - Regulation

Financial Viability Judgement

Rhondda Housing Association Limited – L056

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).

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Description of the Association

Rhondda Housing Association Limited (Rhondda Housing) is a traditional, community based association established in 1979. The Association is registered under the Industrial and Provident Societies Act 1965 and has charitable rules.

The majority of the Association's activity arises from around1,470 general needs homes and around 90 supported housing places.

Rhondda Housing built 13 homes during 2012/13 and is committed to building 171 new homes by 2016.

For the year ending 31 March 2013, the Association's turnover was £6.2m (2012: £6.3m), its retained surplus was £0.8m (2012: £0.7m) and it employed 66 staff (2012: 66).

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 Association has prepared the 30 year financial forecasts using a reasonable set of assumptions.
2. The 30 year forecast is suitably funded, in terms of cash and secured facilities, for the next 2 years.

   It shows the Association continuing to meet its lenders' covenants. As a result of participating in the Welsh Government's Housing Finance Grant, Rhondda Housing's gearing level will rise close to the current gearing limit in 2015. The Association has adequate monitoring arrangements and plans in place to manage the situation.

   The Association's gearing is currently in the region of 30%, compared to a covenant limit of 50%. Interest cover is well above the minimum level of 110% throughout the forecast period. The Association has 51% of its debt at a fixed rate of interest, thereby ensuring that it has reasonable level of certainty in relation to this cost. The assumptions made in relation to the debt at a variable rate of interest are reasonable.
3. The Association's 30 year forecast shows that it should continue to operate well within the lenders' covenants under most scenarios.
4. The Association has reported meeting the Welsh Housing Quality Standard (WHQS) in 2013. It has adequate income from its operating activities to fund its forecasted spending on maintaining its homes at this standard.
5. The level of committed development included in the forecast is greater than current and previous levels. The Association plans to deliver over 100 homes in 2014/15, which is a significant increase to the previous development programme of around 15 homes per year. The Association has assumed that all its future schemes will be grant funded general needs. The progress of the development programme will be monitored as part of our ongoing regulatory contact.

   The Association is actively looking at other ways to continue to developing, in light of diminishing grant levels. This includes developing homes for intermediate rent and utilising funding from the empty home initiatives.
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 demonstrated that it is able to sustain further increases in arrears and bad debts (from 1% in 2013/14 to 4% in 2016/17) as the UK Government introduces its Universal Credit provisions. We are satisfied that the assumptions made by the Association are reasonable given its current experience.

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.