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Welsh Government

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Welsh Government Housing Policy – Regulation

Financial Viability Judgment

Taff Housing Association Limited – L009

June 2016

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

Taff Housing Association Limited (Taff) was established in 1975 and is a traditional community based association, providing around 1,200 homes in the Cardiff area. It is registered under the Co-operative and Community Benefit Societies Act 2014 and has adopted charitable rules.

As well as general needs housing, the Association provides housing support, including a variety of specialist support services, to over 1,000 service users in Cardiff and the surrounding areas. It also provides around 240 supported housing properties in South East Wales. In 2013, the Association set up a new division, Adore Lettings, letting and managing properties on behalf of other landlords.

Taff built 17 homes during 2015/16 and is committed to building a further 55 new homes by August 2017.

For the year ending 31 March 2015, the Association's turnover was £10.4m (2014: £10.0m), its surplus was £1.1m (2014: £1.3m) and it employed 156 staff (2014: 143).

Overall Conclusion

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

As at June 2016, the judgement is: **Pass**

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

This financial viability judgement is issued on the basis that the Association's 30 year financial plan complies with existing Welsh Government Policy, in particular the Policy for Social Housing Rents. Any changes to policy may necessitate a review of the findings of this judgement.

Our judgement is based on the following findings:

The Association has prepared its 30 year financial forecast using a reasonable set of assumptions.

The 30 year financial forecast is suitably funded and shows the Association having sufficient cash and secured loan facilities to meet its funding requirements up to March 2018.

The 30 year financial forecast shows the Association continuing to meet its lenders' loan covenants. The Association's gearing is currently in the region of 47% and remains significantly below the covenant limit of 55% over the life of the plan. Interest cover remains significantly above the minimum level required of 110% throughout the forecast period.

The Association's 30 year forecast shows that it should continue to operate within the lenders' covenants under reasonably foreseeable scenarios.

The Association has reported achieving the Welsh Housing Quality Standard in 2012. It has utilised stock condition survey information to inform the costs included in its 30 year forecast, to continue to meet this standard.

The impact of the UK Government's welfare reforms, to date, has been within the expectations of the Association. Going forward, it has assumed there will be increases in bad debts (from 0.3% in 2014/15 to 5% in 2018/19) as the UK Government introduces Universal Credit. We are satisfied the assumptions made by the Association are reasonable given its experience.

The level of future development included in the forecast is within our expectations of what the Association can achieve and is sufficiently funded. There is a track record of the Association delivering schemes of a similar size in the past to those currently being undertaken.

Around 23% of Taff's Income is grant funded from the Supporting People Programme. We are satisfied that the Association is monitoring its reliance on this income and has taken steps to manage the risk to its operations.

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 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 Association and our accumulated knowledge and experience of the Association, its management and the housing sector as a whole.

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

This report has been prepared for the Association as an opinion by the Regulator. 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.

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.