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Welsh Government
Housing Policy - Regulation

Financial Viability Judgement

Mid-Wales Housing Association Limited - L013

February 2016

Financial Viability Judgement

The Welsh Ministers have powers under the Housing Act 1996 to regulate Registered Social Landlords 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, which is designed to provide the Registered Social Landlords, its tenants, service users and other stakeholders with an understanding of the its 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 Group

The Group consists of Mid-Wales Housing Association Limited (Mid-Wales Housing), the parent, with a subsidiary company called Care and Repair in Powys Limited. Both are Registered Social Landlords who are registered under the Co-operative and Community Benefit Societies Act 2014 and have charitable rules.

The majority of the Group's activity arises from 1,300 general needs homes and 230 supported housing and sheltered accommodation places. The Group is active in Ceredigion and Powys local authority areas in Wales, and also Shropshire in England with general needs.

Mid-Wales Housing has built 53 new homes in 2014/15, and is committed to building 54 new homes during 2015/16.

For the year ending 31 March 2015, the Association's turnover was £7.3m (2014: £6.9m), its retained surplus was £0.5m (2014: £0.3m) and it employed 74 staff (2014: 75).

Overall Conclusion

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

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

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

Our judgement is based on the following findings:

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

The 30 year forecast is suitably funded, in terms of cash and secured facilities for 2 years.

The Group's gearing is currently in the region of 58% compared to a covenant limit of 65%. The Group is operating very near the interest cover covenant of 115% until 2020/21. The Group therefore has some exposure to changes in its underlying assumptions. The Group is aware of this and we are satisfied that the Group has adequate controls in place to manage the risk, including current renegotiation of these covenants, and flexibility in its development plan.

The Group 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 Group. Going forward, it has assumed that there will be further increases in arrears and bad debts (from 1% in 2015 to 2% by 2018) as the UK Government introduces its Universal Credit provisions. We are satisfied that the assumptions made by the Group are reasonable given its current experience.

This Financial Viability Judgment covers the activities of Registered Social Landlords Mid-Wales Housing Association Limited and Care and Repair in Powys Limited.

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 association 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.

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