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# Welsh Government Housing Policy – Regulation

Financial Viability Judgment

Cynon Taf Community Housing (2007) Limited – L145

June 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](mailto:housingregulation@wales.gsi.gov.uk)

## Description of the Group

The Group consists of Cynon Taf Community Housing (2007) Limited, (Cynon Taf) the parent company, with subsidiary member Care and Repair Rhondda Cynon Taf Limited.

Cynon Taf is the Registered Social Landlord within the group. Both group members 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 1,550 general needs homes, around 300 sheltered and 30 supported accommodation units.

Cynon Taf has built 18 homes during 2013/14 and is committed to building another 74 new homes by 2016.

For the year ending 31 March 2014, the Group's turnover was £8.6m (2013: £8.3m), its retained surplus was £0.9m (2013: £1.1m) and it employed 67 staff (2013: 65).

## Overall Conclusion

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

As at 30 June 2015 the judgement is:

### Pass

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

Our judgement is explained as follows:

1. The Group 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 two years. It also shows the Group continuing to meet its lenders' covenants.

The Group's gearing is currently in the region of 43% compared to a covenant limit of 50%. Interest cover is above the minimum level of 120% throughout the forecast period. The Group has 37% of its debt at a fixed rate of interest, and so has a low level of certainty in relation to this cost. The assumptions made in relation to debt at a variable rate of interest are reasonable.

3. The Group is operating near its interest cover covenant in the short term. The Group is aware of this and has plans in place to manage the risk. The Regulation Team will monitor this as part of regulatory engagement.
4. The Group has reported achieving the Welsh Housing Quality Standard in 2014. It has utilised stock condition survey information to inform the costs included in its 30 year forecast to continue to meet this standard.
5. The level of committed development included in the forecast is within our expectations of what the Group can achieve and is sufficiently funded. There is a track record of the Group delivering schemes of a similar size in the past to those currently being undertaken. The Group has assumed that all future schemes are grant funded general needs or supported accommodation.
6. The Group has assumed sales of 5 homes per year as part of its asset management strategy, however, we are satisfied that the Group is not reliant on this income to fund its operations.

7. 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 0.8% in 2013/14 to 1% in 2016/17) as the UK Government introduces its Universal Credit provisions. The regulation team will continue to monitor this as part of ongoing regulatory engagement.
8. The Group created an in-house maintenance team during the year and incurred an overspend in the transitional period. The Group is currently implementing improvements to systems and processes which should enable them to better monitor results going forward. The regulation team will continue to monitor progress on this as part of regulatory engagement.
9. This Financial Viability Judgment covers the activities of registered social landlord Cynon Taf. We have also reviewed the activities and latest set of financial statements for Care and Repair Rhondda Cynon Taf Limited and are satisfied that this is not significant in context of the Group's activities and therefore, do not pose a material risk to the financial viability of the Registered Social Landlord.

## 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 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.