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Welsh Government Housing Policy - Regulation

Financial Viability Judgement

Melin Homes Limited – L110

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

Melin Homes Limited is a Registered Social Landlord providing around 3,400 general needs homes and supported housing places.

It is registered under the Industrial and Provident Societies Act 1965 with charitable rules.

Melin Homes Limited has built 122 homes during 2012/13 and is committed to building 206 new homes by 2015.

For the year ending 31 March 2013, the Association's turnover was £24.1m (2012: £16.3m), its retained surplus was £7.1m (2012: £1.7m) and it employed 229 staff (2012: 186).

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 12 months. It shows the Association continuing to meet its lenders' covenants.

   The Association's gearing is currently in the region of 47%, compared to a covenant limit of 60%. Interest cover is well above the minimum level of 110% throughout the forecast period. The Association has 48% of its debt at a fixed rate of interest, thereby ensuring that it has some 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 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.
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 increases in arrears and bad debts 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.