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# Welsh Government Housing Policy – Regulation

Financial Viability Judgment

Merthyr Tydfil Housing Association Limited – L042

November 2015

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## 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.

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# Description of the Group

Merthyr Tydfil Housing Association Limited (Merthyr Housing) was established in 1977 and is a traditional, community based association. The Association is registered under the Co-operative and Community Benefit Societies Act 2014 and has charitable rules.

The Association's primary activity arises from a total of 1,136 units. This includes 1,016 general needs homes, one sheltered housing scheme, a hostel, a small number of special needs accommodation units and market rented properties.

Merthyr Housing recently completed a development of 12 new homes. There is a further scheme planned which will be rolled out in a number of phases to build 66 replacement homes as part of the redevelopment of a flood risk area. At present, the first phase of 23 units is committed. From 2017/18 it has been assumed that it will build or acquire a further 5 new homes per year

For the year ending 31 March 2015, the Association's turnover was £5.4m (2014: £5.4m), its retained surplus was £0.5m (2014: £0.3m) and it employed 47 staff (2014: 44).

# Overall Conclusion

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

As at November 2015, 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 and including 2017/18. This includes the completion of its committed development program.

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 35% and remains well below the covenant limit of 60% over the life of the plan. Interest cover is above the minimum level 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 plans to bring all homes to Welsh Housing Quality Standard by end of the 2015/16 financial year and has adequate income to fund its forecasted spending on property maintenance and improvements.

The impact of the UK Government's welfare reforms has, to date, been within the expectations of the Association. Looking ahead, it has assumed there will be increases in arrears and bad debts (from 0.7% in 2014/15 to 4% in 2018/19) as the UK Government introduces Universal Credit. We are satisfied the assumptions made by the Association are reasonable given its experience.

Following the completion of the restoration of Redhouse (Merthyr Tydfil Old Town Hall), the Association has let the property on a long term lease. Sufficient provision has been made in the 30 year financial forecast to meet expected ongoing maintenance liabilities in relation to Redhouse.

## 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.