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# Welsh Government Housing Policy – Regulation

Financial Viability Judgement

Pennaf Limited – J136

**27 February 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 Pennaf Limited, the parent company, with subsidiary members of Clwyd Alyn Housing Association Limited (Clwyd Alyn), Ty Glas Housing Society Limited, Offa Limited, Tir Tai Limited, Pen Alyn Limited, and Pen Elwy Limited.

The Group's Registered Social Landlords are:

- Pennaf Limited, a company limited by guarantee, which provides management services to the group.
- Clwyd Alyn Housing Association Limited, providing 5,573 homes including general needs, Low Cost Home Ownership and supported housing places.
- Ty Glas Housing Society Limited directly managing a Care and Repair agency in Wrexham.

Pennaf Limited does not have charitable rules. Clwyd Alyn and Ty Glas Housing Society Limited are registered under the Co-operative and Community Benefit Societies Act 2014 and have charitable rules.

Tir Tai Limited is a company limited by guarantee and provides development services to other parts of the Group.

Offa Limited is a company limited by guarantee to undertake any non-charitable work in the Group and provides management services to private landlords.

Pen Alyn Limited and Pen Elwy Limited are companies limited by share with Pennaf Limited as the only shareholder. Pen Alyn Limited provides maintenance services to other Group members. Pen Elwy Limited is not currently active and the Group is considering options for this.

The majority of the Group's activity arises from 3,704 general needs homes, 249 extra care apartments, and 726 supported housing, residential and nursing home places. They also provide around 800 properties through Low Cost Home Ownership. The Group is active in seven Local Authority areas in Wales.

Pennaf Limited has built 121 new homes during 2013/14 and is committed to building 227 new homes and 66 additional extra care places by 2017.

For the year ending 31 March 2014, the group's turnover was £31.3m (2013: £29.2m); the retained surplus was £1.4m (2013: £0.1m) and it employed 577 staff (2013: 545).

The turnover of Clwyd Alyn was £30.7m (2013: £28.7m); the retained surplus was £1.4m (2013: £0.3m) and it employed 353 staff (2013: 344).

## Overall Conclusion

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

As at 27 February 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. However it has not included any development beyond 2017.
2. The 30 year forecast is suitably funded, in terms of cash and secured facilities for the duration of the committed development plan. It shows the Group continuing to meet its lenders' covenants.

The Group's gearing is currently in the region of 71% compared to a covenant limit of 75%. Interest cover is currently around 115% and 113% on a 3 year rolling average, compared to covenants of 95% and 105% respectively. The Group has 67% of its debt at a fixed rate of interest, thereby ensuring that it has a reasonable level of certainty in relation to this cost. The assumptions made in relation to the debt at a variable rate are reasonable.

3. The Group's 30 year forecast shows that it should continue to operate within the lenders' covenants under most scenarios,
4. The Group aims to achieve Welsh Housing Quality Standard in 2017. It has utilised stock condition survey information to inform the costs included in its 30 year forecast to meet and maintain 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. The business plan submitted includes only committed development and therefore, does not represent the Group's development strategy and aspirations.

To enable it to continue to develop new homes beyond those committed, the Group is actively looking at innovative financing models. We will continue to monitor progress on these as part of ongoing regulatory engagement.

6. The Group's financial results to date and its 30 year forecast demonstrates that it does not rely on property sales or commercial activities to fund its operations.

7. Around 8% of the Group's income is from Supported People Programme Grant. We are satisfied that the Group is monitoring its reliance on this income and is taking steps to help it manage the risk to its operations.
8. During 2014, the impact of the UK Government's Welfare Reform has been within the expectations of the Group. Going forward, it has assumed that the current bad debt provision of 3.5% will be sufficient 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.
9. This Financial Viability Judgement covers the activities of Registered Social Landlord Clwyd Alyn. Pennaf Limited and Pen Alyn Limited both provide services to Clwyd Alyn. The cost of these services (management and maintenance respectively) is included in the 30 year forecast of Clwyd Alyn. We have reviewed the activities and latest set of financial statements for Ty Glas Housing Society Limited, Offa Limited, Tir Tai Limited and Pen Elwy Limited. We are satisfied that these are not significant in the context of the Group's activities and therefore do not pose a material risk to the financial viability of the Group.

## 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 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 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.