



Homes &
Communities
Agency

The Social Housing Regulator

July 2017

HCA Regulatory Judgement on Severn Vale Housing Society Limited L4171

Publication Details

Reason for publication

Governance downgrade

Regulatory process

In Depth Assessment

Please see the definitions in Annex 1 for more detail

Governance

G2 (Compliant)

The provider meets our governance requirements but needs to improve some aspects of its governance arrangements to support continued compliance.

Viability

V2 (Compliant)

The provider meets our viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

Key to grades

G1 / V1	Compliant
G2 / V2	Compliant
G3 / V3	Non-compliant and intensive regulatory engagement.
G4 / V4	Non-compliant, serious failures leading to either intensive regulatory engagement or the use of enforcement powers.

Provider Details

Origins

Severn Vale Housing Society Limited (SVHS) is a co-operative and community benefit society. It was formed in 1998 to receive the transfer of stock from Tewkesbury Borough Council. The provider's core business is the provision of general needs and supported housing.

Registered Entities

SVHS has no registered subsidiaries.

Unregistered Entities

SVHS has two dormant unregistered subsidiaries: Severn Vale Housing Properties Limited and Severn Vale Housing Association Limited.

Geographic Spread and Scale

SVHS currently owns and manages 3,897 homes, located mainly in the Tewkesbury local authority area with a small number of homes in the neighbouring local authority areas of Gloucester, Forest of Dean and Stroud.

Staffing and Turnover

For the year ended 31 March 2017, SVHS reported turnover of £20m and employed 114 full-time equivalent staff.

Development

SVHS has plans to develop 50 homes over the next two years.

Regulatory Judgement

This regulatory judgement downgrades the previous published assessment of SVHS's governance.

SVHS continues to meet the requirements on governance set out in the Governance and Financial Viability standard. Over the last three years it has delivered significant improvements in its governance arrangements and the regulator has assurance that the foundations of good governance are in place.

However, following an IDA we have concluded that SVHS needs to improve the effectiveness of some aspects of its arrangements to support continued compliance, particularly given inherent risks stemming from SVHS's current financial position and low forecast headroom on future covenant compliance.

Financial capacity is a key factor limiting SVHS's aspiration to develop. The rationale for delivering an aspirational development programme is not fully established yet and assumes funding primarily through asset disposals. SVHS needs to do further work in understanding the return on its assets to better inform future asset disposal plans.

SVHS's stress testing, while aligned to some risks facing the organisation, is not comprehensive. The provider also needs to improve performance reporting to the board to help ensure that the risks facing the business are being managed effectively.

Board skills and capacity require strengthening in order to set the strategic direction and proactively manage and challenge across the key risks facing SVHS. The provider is working through a process of refreshing its corporate strategy and is undertaking a board effectiveness review to ensure that board capacity is aligned with the organisation's aim to be the leading housing provider in Gloucestershire. However, the pace of change in moving to a skills-based board has been slower than expected.

The regulator's assessment of SVHS's compliance with the financial viability element of the governance and financial viability standard is unchanged. Based on evidence gained from the IDA, the regulator has assurance that SVHS's financial plans are consistent with its financial strategy. Stress testing demonstrates it has the financial capacity to deal with a reasonable range of exposures but needs to manage the material risks identified.

Assurance of capacity to mitigate immediate exposures is provided through the level of cash balances held and a track record of financial control. However, SVHS's financial profile is relatively weak and there is limited capacity in the plan to manage adverse variances. Restricted covenant headroom and capacity for new debt constrains SVHS's ability to deliver its plans and also mitigate risks facing the organisation.

Annex 1: Definitions of Regulatory Processes

In Depth Assessment (IDA)

An IDA is a bespoke assessment of a provider's viability and governance, including its approach to value for money. It involves on-site work and considers in detail a provider's ability to meet its financial obligations and the effectiveness of its governance structures and processes.

Stability Checks

Based primarily on information supplied through regulatory returns, a stability check is an annual review of a provider's financial position and its latest business plan. The review is focused on determining if there is evidence to indicate a provider's current judgements merit reconsideration.

Reactive Engagement

Reactive engagement is unplanned work which is triggered by new intelligence or a developing situation which may have implications for a provider's current regulatory judgement.

Stability Checks and Reactive Engagement

In some cases, we will publish narrative regulatory judgements which combine intelligence gained from both Stability Checks and Reactive Engagement.

Further Information

For further details about these processes, please see Regulating the Standards on <http://www.gov.uk/hca>.