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Welsh Government

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# Welsh Government Housing Regulation

Regulatory Judgement

Hendre – L132

October 2018

The Welsh Ministers have powers under Part 1 of the Housing Act 1996 to regulate Registered Social Landlords in relation to the provision of housing and matters relating to governance and financial management.

The Welsh Ministers are publishing this Regulatory Judgement under sections 33A and 35 of the Housing Act 1996.

The judgement is published in accordance with the Regulatory Framework for Registered Social Landlords in Wales and the related performance standards.

<http://gov.wales/topics/housing-and-regeneration/services-and-support/regulation/regulatory-framework/?lang=en>

The judgement is based upon the Association's own evaluation of its compliance with the performance standards together with regulatory intelligence gained through on-going, co-regulatory, relationship management between the Regulator and the Association.

### **Basis of Judgement**

This judgement is designed to provide the Registered Social Landlord, its tenants, service users and other stakeholders with an understanding of its financial viability and how well it is performing, at a specific moment in time, in relation to:

- Governance and Service Delivery
- Financial Management

The judgement must not be relied upon by any other party for any other purpose. The Registered Social Landlord is responsible for the completeness and accuracy of information provided to the Regulator.

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## Profile

Hendre (or “the Group”) was formed in 2002 and can trace its history to the establishment of Hafod Housing Association in 1968. The Group operates in 9 local authority areas in South Wales, manages 6,000 properties and provides services to 16,000 individuals and families.

Hendre Limited is the parent of the Group and exercises control over all subsidiaries. It is a Registered Social Landlord and registered under the Cooperative and Community Benefit Societies Act 2014. All Group members, with the exception of Hafod Resources, operate under charitable rules.

The Group structure comprises:

- Hendre Limited – the parent organisation;
- Hafod Resources Limited which provides finance, human resources, development and other corporate services to Group members and a small number of external organisations;
- Hafod Housing Association, a Registered Social Landlord, which provides general needs housing and a range of home ownership initiatives;
- Yellow Wales, a registered charity and subsidiary of Hafod Housing Association, providing employment and training opportunities to young people;
- Hafod Care Association, a Registered Social Landlord, which provides specialist care, housing and support, including residential and nursing care, domiciliary care and housing with support; and
- Foundation Housing Tai Sylfaen, a non Registered Social Landlord, which is currently dormant. Its services for homeless people and supported housing have been transferred to Hafod Housing Association and Hafod Care Association.

The Group has an equity stake in the Welsh Housing Partnership, which is a joint venture with three other housing associations.

## Key Financial Data

|  | Historical Data |           | Covenant Limit | Sector Average |
|--|-----------------|-----------|----------------|----------------|
|  | 2016            | 2017      |                |                |
| <b>Performance</b>   |                 |           |                |                |
| Operating surplus as % of turnover   | 17.7%           | 15.4%     | n/a            | 21.3%          |
| Surplus/(deficit) for the year as % of turnover  | 9.4%            | 6.5%      | n/a            | 6.5%           |
| Loss from empty properties and uncollected rent as % of rental income  | 1.4%            | 1.0%      | n/a            | 2.0%           |
|  |                 |           |                |                |
| <b>Funding</b>   |                 |           |                |                |
| Fixed borrowing as a % of total  | 100%            | 100%      | n/a            | 74%            |
| Gearing  | 48%/31%         | 53%/38%   | 60%/65%        | 61%            |
| Interest cover   | 237%/370%       | 212%/480% | 110%/120%      | 172%           |
| Current cash balances and undrawn facilities are sufficient for the Group to complete its committed development programme. |                 |           |                |                |
| Covenants are calculated at subsidiary level, with the figures being shown for Hafod Housing and Hafod Care respectively.  |                 |           |                |                |

## Regulatory Judgement – Co-Regulation Status

### Co-Regulation Status – October 2018

#### Governance and Services - Intervention

- A significant risk (single or combination) has not been effectively managed and regulatory intervention is required to effect necessary change.

#### Financial Viability - Standard

- Meets viability requirements and has the financial capacity to deal with scenarios appropriately.

Regulatory intervention is required to ensure the Group addresses identified regulatory concerns.

Hendre has given the Welsh Ministers a voluntary undertaking in accordance with section 6A of the Housing Act 1996 in response to those concerns.

The Regulator considers there is evidence of serious failures of governance including:

- Leadership and culture
- Board oversight and control
- Non compliance with policy, governing instruments and Schedule 1 of the Housing Act 1996
- Ineffective management and poor professional practice

In order to comply with the voluntary undertaking, the Group will undertake a series of actions in consultation with the Regulator, including an independent review of governance and leadership across the organisation. Hendre will be required to implement any resulting recommendations and/or improvement actions from the review to a timetable agreed with the Regulator.

There are concerns around Hendre's compliance with the following performance standards:

#### **PS 1.0 Effective Board and executive management with a clear and ambitious vision for the Registered Social Landlord**

- Governance arrangements establish and maintain clear roles, responsibilities and accountabilities for the Board, Chair and Chief Executive and ensure appropriate probity arrangements are in place.
- Complies with governing documents including adopting and complying with an appropriate code of governance.
- Adheres to all relevant law.

#### **PS 4.0 Clearly evidenced self-evaluation and statement of compliance**

- Compliance with Circular 02/15 – the core principles of self evaluation for use by Housing Associations Registered in Wales, or any subsequent guidance which replaces this Circular.

#### **PS 7.0 Compliance with regulatory requirements**

- Communicates in a timely manner with the Regulator on material issues that relate to non-compliance.
- Adheres to all regulatory requirements.