



Homes &  
Communities  
Agency

The Social Housing Regulator

# **HCA Regulatory Judgement on Hightown Praetorian and Churches Housing Association Limited – L2179**

**March 2014**

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## The provider

Hightown Praetorian and Churches Housing Association (Hightown) has 4,300 homes. It operates in 14 local authority areas in Hertfordshire, Buckinghamshire and Bedfordshire. The majority of these homes are for general needs but there are around 600 homes providing supported housing, 550 shared ownership housing, 65 places in 12 care homes and a small home providing nursing, five womens' refuges and several projects to support the homeless and young people.

For the year ended 31st March 2013, Hightown reported a net surplus of £6.7m on a turnover of £43.7m and employed an average of 406 full time equivalent staff. Hightown has one small subsidiary, Community Meeting Point Harpenden, which operates a charity shop and provides advice and is not a registered provider.

Hightown developed 425 new homes in 2012/13 and has an on-going development programme with 820 new homes forecast over the three years to 2016/17 including 380 homes under its successful Affordable Homes Guarantee Programme (AHGP) bid.

**Reason for publication:** Viability downgrade.

## Regulatory Ratings\*

- **Properly Governed: G1**

The provider meets the requirements on governance set out in the Governance and Financial Viability Standard.

- **Viable: V2**

The provider meets the requirements on viability set out in the Governance and Financial Viability Standard but needs to manage material financial exposures to support continued compliance.

\*The regulator's assessment on compliance with the Governance & Financial Viability Standard is expressed in gradings from G1 to G4 for governance and V1 to V4 for viability. For both viability and governance the first two grades indicate compliance with the standard. A G3 or V3 assessment indicates a level of concern with the organisation's performance that is likely to be reflected in intensive regulatory engagement. A G4 or V4 judgement indicates a failure of governance or viability to the extent that the regulator is using its statutory powers.

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## Regulatory Judgement

This regulatory judgement downgrades the regulator's previous published assessment of Hightown's viability.

The regulator's assessment of Hightown's compliance with the viability element of the governance and financial viability standard has been downgraded to reflect three key exposures which need to be managed by Hightown. Based on evidence gained from contact with the executive and a review of the latest financial forecast, annual accounts and the quarterly survey, the regulator has assurance that the financial plans are consistent with, and support, the financial strategy of the provider. Hightown has met and forecasts continuing to meet funders' loan covenants.

The first exposure is that Hightown's existing properties do not yet provide sufficient security to allow it to finance full delivery of its planned development programme beyond August 2015. Properties currently being developed will need to be charged as security to achieve this. Ensuring sufficient security is available on a timely basis becomes increasingly difficult when most properties are already charged as security. The association has demonstrated that it is currently actively managing this material risk. However, as its committed schemes require expenditure until March 2016, the current strategy of charging new/future stock does not yet provide assurance that this risk is fully mitigated.

The second exposure is that Hightown needs to put in place additional loan facilities to fully deliver its committed AHGP allocation, which extends to March 2016. Existing loan facilities may only meet the association's requirements up to the end of August 2015, though Hightown has some flexibility over the timing of non-grant funded works that may extend this beyond August for a limited period of months. There will also need to be re-financing of facilities totalling £22m in 2016 and £28m in 2018. The association is making progress towards arranging additional loan facilities.

The third exposure is that interest rate assumptions in the business plan over the medium-term are significantly less prudent than those of many other providers and the association has a relatively high proportion of debt on variable rates. Should interest rates rise rapidly Hightown would intend to manage its exposure by switching quickly from floating to fixed rates. However the stress testing undertaken by the provider on this interest rate risk has a starting point that is much lower and therefore may not be robust. Hightown should reconsider the prudence of its base plan interest rate assumptions, undertake further stress testing of interest rates, and consider revisiting its overall treasury strategy to ensure that there will be sufficient headroom against covenants in future.

The regulator's assessment of Hightown's compliance with the governance element of the governance and financial viability standard remains unchanged. Based on evidence gained from previous contact with the board and executive and a review of board papers, the regulator has assurance that governance arrangements remain sufficient to adequately control the organisation to enable it to continue meeting its objectives.