Homes & Communities Agency

The Social Housing Regulator

HCA Regulatory Judgement on Incommunities Group Limited L4363

Incommunities Limited L4476

April 2013

The provider

Incommunities Group Limited (IGL) was established in 2003 to receive the transfer of 22,400 homes from Bradford Metropolitan District Council. Its core business is the provision of general needs rented housing and housing for older people across the Bradford district. Having delivered its initial investment programme, IGL's focus is turning to the regeneration of some of its older estates and initiatives aimed at promoting economic sustantability.

IGL is the parent body of the group and is non-stock holding. It is a non-charitable company which provides strategic direction and corporate services to the group. It had a consolidated turnover of £86m in the year to March 2012 and employs 960 staff.

The group has one registered stock owning subsidiary, Incommunities Limited (IL). This is a charitable industrial and provident society, which was formed in 2007 from the amalgamation of the six operating subsidiaries that were registered with the original transfer in 2003.

The group has a number of unregistered subsidiaries which further the commercial and charitable aims of the group:

- MASTS – a registered charity and company limited by guarantee which provides support to young people in Bradford;
- Lumia Homes Limited – a private limited company that undertakes development on behalf of the group;
- BCHT Development Company Limited – a development company created at the point of transfer; and
- Incommunities Foundation Limited – a charitable industrial and provident society which undertakes charitable work on behalf of the group.

The group also has a 50% stake in Centre for Partnership Limited Liability Partnership, a joint venture, which undertakes consultancy work.
IGL is an investment partner with the Homes and Communities Agency and expects to deliver 229 homes for rent within the 2011-15 Affordable Homes Programme.

Regulatory Ratings *

- **Properly Governed: G1**

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

- **Viable: V1**

The provider meets the requirements on viability set out in the Governance and Financial Viability standard and has the capacity to mitigate its exposures effectively.

*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.

Regulatory Judgement

The regulator's assessment of IGL's viability has been upgraded to reflect an improvement in its financial position.

The regulator has reviewed IGL's latest financial forecasts in conjunction with its strategic plan and held discussions with the executive. IGL achieved a surplus of £3.28m in 2011/12 in comparison with its budgeted deficit for the year of £1.8m. The reason for the better than budgeted financial performance was due primarily to asset sales, reduced expenditure on staff costs and fewer voids and bad debts.

The regulator's previous assessment identified two specific risk exposures that could potentially impact on IGL's viability. The first of these was the impact of increased interest rates on the business plan. In 2009/10 IGL was in discussions with its funders over the terms of its financing arrangements and its debt profile. This was because IGL's intended spending profile on its stock improvement programme, to complete the Decent Homes programme, as forecast at that time, would have resulted in existing terms not being met. Agreement on new facilities, pricing of debt and a revised debt profile was subsequently reached with lenders enabling the programme to be delivered in line with plans. This has also provided IGL with more certainty over its interest rate position and currently 80% of its debt is held on fixed rates which helps manage rising interest costs.

The second specific exposure was the need to ensure strict cost control due to limited headroom against the loan facility in the business plan. The latest financial forecasts show an improved financial position compared with last year's forecasts. Headroom (i.e. peak debt compared to the loan facility available) has increased from £7.5m to £14.5m in the current plan mainly as a result of less funds being drawn down compared to budget in the year ending 31 March 2012 due to the better than budgeted performance.

Based on the evidence gained from our review of documentation, and discussion with the executive, the regulator is satisfied that IGL's financial plans are consistent with, and support, the financial strategy of the provider. Its business plan is fully funded, with adequate security in place, and it has been tested to demonstrate it meets funders' covenants under a variety of realistic scenarios.

The assumptions used, the assurance provided by the additional headroom in the business plan, and the outperformance of the budget were material factors in the upgrade of the regulator's viability assessment.

The regulator's assessment of IGL's governance remains unchanged. Based on evidence gained from 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.