Homes & Communities Agency

The Social Housing Regulator

HCA Regulatory Judgement on NSAH (Alliance Homes) Ltd - L4459

March 2013

The provider

NSAH (Alliance Homes) Limited (Alliance Homes) was formed in February 2006 to receive the transfer of 6,500 homes from North Somerset Council. Following successful delivery of the transfer promises in 2011, Alliance Homes completely reviewed its corporate strategy, culminating in a re-branding from 'North Somerset Housing' to 'Alliance Homes'. Its total turnover in the year to March 2012 was c£28m. It employs the equivalent of 212 full-time staff.

Alliance Homes' is a community based housing provider, with a strategic focus on service delivery and supporting tenants, working in partnership with other agencies. The provider operates only within the North Somerset local authority area where it currently owns and manages around 6,500 homes, including 1,000 sheltered properties, and also provides supporting people services. It owns around 1,700 garages and 50 shops from which it earns rental income.

In May 2011 a new subsidiary known as Alliance Homes Ventures Ltd (AHV) was established to install photo voltaic (PV) panels on 1,200 Alliance Homes properties. This work was completed by December 2011. Other housing providers are now accessing the AHV framework for the purchase and installation of these panels.

Alliance Homes is an investment partner with the Homes and Communities Agency as a member of the Knightstone consortium, and is developing 95 units 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 Alliance Homes' viability has been upgraded to reflect the improvement in its financial position.

The regulator has reviewed Alliance Homes' latest financial forecasts in conjunction with its strategic plan and held discussions with the executive. For the year ended 31 March 2012, the provider's overall surplus of £6.8m was significantly better than predicted. This was due to lower than forecast repairs costs (which included a significant contingency) and increased turnover as a result of higher than anticipated rent increases.

As well as highlighting the need to manage sector wide risks such as welfare reform, the regulator's previous assessment identified two specific risk exposures that could potentially impact on Alliance Homes' viability.

The first exposure was that Alliance Homes' 2011 business plan assumed that the majority of its facility was utilised leaving little headroom, and therefore increased risk of an additional funding requirement to meet business plan objectives. The plan is reviewed annually with lenders. The latest plan shows increased headroom, particularly for interest cover, peak debt below facility levels and a generally lower level of indebtedness in the future. Headroom relative to peak debt is fairly tight, however if necessary there is significant scope to reduce levels of discretionary spending on environmental works and development to remain within covenants.

The second identified exposure was that repairs spend was sensitive to cost increases and the consequent potential for overspending. This could have resulted in a weakening of financial ratios and faster use of facilities, particularly given its assumptions on cost increases and the comparatively high levels of spending on repairs. The figures now in Alliance Homes' business plan include savings achieved by a new directly employed maintenance team. In addition, repairs costs are now based upon a recently reviewed stock condition survey which reported that stock was in better condition than originally projected. Alliance Homes also has a good track record of delivering business plan objectives, adding further comfort.

Based on the evidence gained from a review of key documentation and discussions with the executive, the regulator is satisfied that Alliance Homes' financial plans are consistent with, and support, its financial strategy. The business plan is fully funded with adequate security in place, and has been tested to demonstrate it meets funders' covenants under a variety of realistic scenarios.

The assurance provided by the improvement of Alliance Homes' financial position, the outputs from scenario testing, robust repairs cost forecasts along and the availability of sufficient facilities for the period covered by the business plan were material factors in the upgrade of the regulator's viability assessment.

The regulator's assessment of Alliance Homes' governance remains unchanged. Based on evidence gained from contact with the board and executive and a review of documentation, the regulator has assurance that governance arrangements remain sufficient to adequately control the organisation to enable it to continue meeting its objectives.