



HCA Regulatory Judgement on Solon South West Housing Association - L0125

January 2013

The provider

Solon South West Housing Association (Solon) is based in Bristol where most of its stock is located. It owns and manages approximately 1,200 homes for rent of which 80% is for general needs and the remainder is supported housing. Solon also operates in the surrounding local authority areas of Mendip, South Gloucestershire, Forest of Dean and Wiltshire.

Approximately 65% of Solon's stock is over 100 years old. These properties generate significant maintenance requirements and are expensive for tenants to occupy. It is therefore one of Solon's key strategic priorities to increase its stock of new-build homes in order to help meet housing need and also to create a more diverse portfolio with a larger proportion of cheaper-to-maintain new homes.

Solon is a member of the Sovereign Development Consortium which has secured £31.5m grant to provide 1,856 new homes under the Homes and Communities Agency's Affordable Homes Programme 2011-15. Its total turnover in the year to March 2012 was £6.2m. It employs the equivalent of 31 full time staff.

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 Solon's viability has been upgraded to reflect the improvement in its financial position.

The regulator has reviewed Solon's latest financial forecasts in conjunction with its strategic plan and held discussions with the executive. For the year ended 31 March 2012, the association achieved an overall surplus of £1.2m broadly in line with budget.

As well as 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 Solon's viability.

The first was that Solon's repairs spend was sensitive to cost increases and potential overspend, particularly given its assumptions on cost increases and its backlog of cyclical repairs. Figures going forward now include significant savings achieved via procurement of key asset management contracts. In addition, repairs costs are based upon an up-to-date stock condition survey and prudent assumptions for planned maintenance component costs have been adopted. Scenario testing indicates that increases to repairs costs can be absorbed whilst still leaving reasonable headroom over covenants.

The second identified exposure was that the provider had few readily implementable contingencies. The strengthening of the forecast and sensitivity testing give comfort that Solon has the ability to absorb likely adverse scenarios.

Therefore, based on the evidence gained from the review of documentation and discussions with the executive, the regulator is satisfied that Solon'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 has been tested to demonstrate it meets funders' covenants under a variety of realistic scenarios.

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

The regulator's assessment of Solon'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.