



Homes &
Communities
Agency

The Social Housing Regulator

HCA Regulatory Judgement on Venture Housing Association Limited – L1227

October 2014

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The provider

Venture Housing Association Limited (Venture) is an independent housing association owning around 1,300 properties in Liverpool and the Wirral. The association's stock is mainly general needs accommodation of which around 60% consists of one and two bedroom flats. In addition approximately 10% of the association's total stock is supported housing.

Venture's main strategic focus is to provide locally based community services that manage, maintain and develop quality affordable housing. Venture's turnover for the year ending 31 March 2014 was £5,721k. It employs about 30 staff.

Reason for publication: Governance and viability downgrade

Regulatory Ratings*

- **Properly Governed: G4**

The provider does not meet the requirements on governance set out in the Governance and Financial Viability Standard. There are issues of serious regulatory concern and the provider is subject to regulatory intervention or enforcement action.

- **Viable: V4**

The provider does not meet the requirements on viability set out in the Governance and Financial Viability standard. There are issues of serious regulatory concern and the provider is subject to regulatory intervention or enforcement action.

*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 more serious failure of governance or viability leading to either intensive regulatory engagement or the use of enforcement powers.

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Regulatory Judgement

The board of Venture has failed to manage risks to the delivery of its objectives effectively. Its approach to business planning has not ensured that risks to the delivery of financial plans were identified and effectively managed. It has not ensured that it has access to sufficient liquidity at all times and has not ensured that it has a robust and prudent business planning and control framework.

At the end of August 2014, Venture notified the Regulator of the breach of a liquidity covenant in a loan agreement which had taken place in March 2014 and again in June 2014. A waiver has been agreed, for both March and June but the covenant has not been removed and a further breach occurred in September. This event has exposed Venture to events of default across the loan portfolio.

As the breach of covenant was extant and had not been waived at Venture's financial year end, there is an outstanding question as to whether the accounts can be signed off. The board is currently considering this with its advisors.

Finally, as a consequence of the breach of covenant, Venture was unable to secure the additional finance it had anticipated. In the absence of additional funding, or joining a stronger partner, Venture's access to liquidity in the short to medium term is predicated on deferment of stock investment programmes or realising asset sales.

The forbearance of lenders has afforded the Board some time to develop a recovery strategy. Despite some initial problems and diversions, such a strategy is now in place.

In terms of governance, allowing the organisation to reach this point represents a wholesale failure of control on the part of the Board and executive. The provider did not have adequate systems in place to monitor covenant compliance, despite being warned in an audit management letter in 2013 that a certain level of cash balance was needed to ensure compliance with the liquidity covenant. Neither did it adequately anticipate its financial requirements and take steps well ahead of time to put facilities in place. This is a failure of business planning and control at the most basic level.

In terms of viability, the provider has failed both to meet loan covenants and to maintain sufficient liquidity. Any future for the organisation as a going concern can only be secured with the continuing support of lenders.

The breach of covenant which took place on 31 March 2014 was reported to a member of the executive team at the end of May. It was reported to the Board on 21 July. The regulator was not informed of the event until 28 August. Furthermore the information that had previously been given to the regulator was, at best, misleading.

Providers are required to communicate in a timely manner with the regulator on material issues that relate to non-compliance with the economic standards. A co-regulatory regime can only function on the basis of co-operation, self-reporting and transparency. This failure to disclose is an aggravating factor and has been taken into account in the regulator's judgement.