HCA Regulatory Judgement on Wirral Partnership Homes Ltd - L4435

February 2013

The provider

Wirral Partnership Homes Ltd (WPH) was registered in February 2005 to take the transfer of stock from Wirral Borough Council. The organisation operates solely in the Wirral local authority area. WPH owns and manages 12,400 homes and employs 507 staff. In the year to 31 March 2012 it had turnover of £59.6m.

WPH's core business is the provision of general needs and supported housing. Since the completion of the property improvement programme in 2012, which was promised to tenants at transfer, its primary strategic focus has shifted towards the development of new homes and the completion of the remodelling of its high rise properties. WPH has entered into a short form agreement with the Homes and Communities Agency to provide 400 new homes for affordable rent, as part of 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 WPH's viability has been upgraded to reflect the improvement in its financial position.

The regulator has reviewed WPH's financial forecasts together with its business plan and held discussions with the executive. WPH generated a surplus of £7.9m in the year ended 31 March 2012. The organisation out-performed the annual financial budget for the year, primarily due to lower spending on repairs and management budgets.

As well as the need to manage sector wide risks such as welfare reform, the regulator's previous assessment identified three specific risk exposures that could potentially impact on WPH's viability. The first was the delivery of the final year of the home improvement programme on time and within budget, in order to meet promises to tenants. There had been significant slippage in the delivery of the programme in the first five years, meaning high-rise, environmental and non-decent homes work programmes had to be compressed into the final two years of the programme period. We gained assurance from the fact that WPH commissioned consultants to assist it in the delivery of the programme and completed it within the 2012 deadline and within budget. We have gained further assurance from the fact that a 100% stock condition survey (undertaken in 2010) confirmed that there was a significant over-provision in the business plan for stock reinvestment needs. This over-provision has been removed from the business plan and has substantially increased the headroom between peak debt and loan facility, which now stands at £18m.

The second specific risk identified was the exposure to cost inflation due to challenging assumptions in the business plan. However we take assurance from the latest financial forecast that includes a number of contingencies as well as £18m of loan headroom. This should ensure that the business plan is robust and its objectives can be delivered.

The third risk was the requirement by the Merseyside Pension Fund (MPF) for WPH to provide a pension bond equivalent to WPH's share of its pension deficit. There were concerns that the increased size of the deficit in recent years would lead to the requirement for a much larger pension bond facility which, in turn, could lead to the re-pricing of WPH's existing debt. We take assurance from the actions taken by WPH to repay a significant proportion of the deficit (£3m) during 2010/11. In addition, MPF has not requested an increase to the bond facility during 2012 and WPH has asserted that its lenders no longer view an increased bond facility as a reason to increase existing loan margins.

WPH considers the most significant risks to its business plan to be those arising from the reform of welfare benefits. However, we take assurance from the action taken to identify and mitigate the impact of the reforms for its tenants. Furthermore, the business plan includes a significantly increased bad debt provision to offset the potential rent losses following from these reforms.

Therefore, based upon the evidence gained from the review of documentation and discussions with the executive, the regulator is satisfied that WPH's financial plans are consistent with, and support, the financial strategy of the provider. Its business plan is fully funded and has adequate security in place. WPH has modelled the impact of some adverse scenarios on the plan, which demonstrate its capacity to remain within funders' covenants.

The assurance provided by the completion of the improvement programme and the additional headroom in the business plan released as a result of the associated stock condition work, together with the additional assurance around the pension deficit, were material factors in the upgrade of the regulator's viability assessment.

The regulator's assessment of WPH'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.