Homes & Communities Agency

The Social Housing Regulator

HCA Regulatory Judgement on Sadeh Lok Housing Group Limited-L3807

October 2013

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The provider

Sadeh Lok Housing Group Limited (SLHG) was established in 1988 to meet the needs of black and minority ethnic communities in the Kirklees district of West Yorkshire. It currently owns just over 1,000 homes and manages 30 properties on behalf of other landlords. SLHG's stock is located in three local authorities in Yorkshire. 87% of its stock is in Kirklees and the remainder predominantly in Wakefield with a small percentage in Rotherham. It employs around 30 staff and had a total group turnover of £5.1m in the year to 31 March 2013.

SLHG's core business is the provision of general needs housing and it has a small development programme of 15 units to be delivered by 2018. It has four unregistered subsidiaries. Sadeh Lok Developments operates as a development vehicle. Sadeh Lok Corporate and Up and Working are both currently dormant, and Access Matrix ceased trading in April 2013.

SLHG's main focus for the next four years is to deliver services to a high standard, remaining viable and efficient whilst considering prudent ways to grow the business and services it offers.

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

The regulator has reviewed the group's latest financial forecasts in conjunction with its strategic plan and held discussions with the executive. An overall surplus of £300k was generated in 2012-13, significantly ahead of budget. This was based on additional rental income from the successful long term lease of an office owned by the group and savings achieved on finance and management costs and board remuneration.

The regulator's previous published assessment of SLHG concluded that the provider had improved its financial management and strengthened its approach to business planning and budgetary control. However, the regulator's judgement was that exposures still remained which could make SLHG vulnerable to deterioration.

The three principal remaining exposures for SLHG have been ensuring continued compliance with funders' covenants, operating successfully within revised loan facilities, and ensuring continuous improvement of its cost base through enhanced financial management.

The first specific risk exposure concerned continued compliance with all funders' covenants, specifically managing the limited headroom against its gearing covenant. The acquisition of properties from another registered provider has reduced the group's gearing and has increased headroom against these covenants. Gearing is forecast to reduce further in future years in line with the planned repayment of debt, further mitigating this exposure.

The second specific risk exposure related to SLHG's ability to work within revised loan facilities, including maintaining a sufficient cash balance until a planned refinancing exercise could be implemented. SLHG has continued to operate successfully with a satisfactory cash balance enabling it to manage any adverse deviations from business plan assumptions. SLHG's approach has been aligned with strong financial management, including robust cashflow forecasting and monitoring to ensure operating requirements continue to be met.

The third specific risk exposure related to SLHG improving its cost base. In recent years SLHG has significantly improved financial forecasting and monitoring to improve both its cost assumptions and performance in this area. There has been a significant improvement in the group's internal financial control environment including better financial forecasting and reporting against the business plan cost assumptions. Improved financial management has resulted in increased financial strength, with financial performance exceeding prudent budgeting in both 2011-12 and 2012-13. SLHG has also improved the timeliness of submissions to the regulator of all key strategic and financial information.

Based on the evidence gained from the review of documentation and discussions with the executive, the regulator is satisfied that SLHG's financial plans are consistent with, and support, its financial strategy. The group has undertaken a range of sensitivity testing on its business plan including the potential impact of combined scenarios. This analysis indicated that it will continue to operate within its covenants.

SLHG has sufficient cash reserves and facilities available to deliver its business plan until 2016-17, with security in place.

The regulator's assessment of SLHG'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.