



Homes &  
Communities  
Agency

The Social Housing Regulator

**September 2017**

# **HCA Regulatory Judgement on Network Homes Limited 4825**

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## Publication Details

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### Reason for publication

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Viability re-grade

### Regulatory process

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In-Depth Assessment (IDA)

*Please see the definitions in Annex 1 for more detail*

### Governance

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#### G1 (Compliant)

The provider meets our governance requirements

### Viability

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#### V2 (Compliant)

The provider meets our viability requirements. It has the financial capacity to deal with a reasonable range of adverse scenarios but needs to manage material risks to ensure continued compliance.

## Key to grades

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**G1 / V1** Compliant

**G2 / V2** Compliant

**G3 / V3** Non-compliant and intensive regulatory engagement.

**G4 / V4** Non-compliant, serious failures leading to either intensive regulatory engagement or the use of enforcement powers.

## Provider Details

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### Origins

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Network Homes Limited (NHL) is a charitable community benefit society. NHL is the asset holding group parent and sole registered provider in the group following its amalgamation on 29 April 2016. NHL owns all of the social housing assets, wholly owns all unregistered subsidiaries and, with the exception of SW9 Community Housing (SW9), is the sole employer for the group. NHL's main activities relate to the development and management of social housing.

### Unregistered Entities

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SW9 is a resident-led Local Management Organisation that manages around 1,400 homes in Stockwell on behalf of NHL. NHL also has a series of special purpose vehicles (SPVs) established for financial reasons to support its business and operations. SPVs are owned directly by NHL, with the NHL Board either directly appointing or ratifying all SPV board appointments. The SPVs include Network Homes Investments Limited (NHIL), which is the development vehicle for the group and builds new homes for sale on the open market.

### Geographic Spread and Scale

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NHL operates across a number of London boroughs and East Hertfordshire, including Brent, the City of Westminster, Lambeth and Hackney. NHL owns in the region of 19k units of which about 86% are social housing rented stock.

### Staffing and Turnover

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In the year ended 31 March 2017 the group turnover was £220m. At the time of the IDA, NHL employed about 550 full time equivalent staff.

### Development

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NHL is currently developing about 600 units a year and its development programme includes units for general needs (social rent and affordable rent), shared ownership and outright sale.

## Regulatory Judgement

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This regulatory judgement re-grades the previous published assessment of NHL's financial viability.

Based on evidence gained from an IDA, the regulator has assurance that NHL complies with the financial viability element of the Governance and Financial Viability Standard. NHL's financial plans are consistent with, and support, its financial strategy. NHL has effective and prudent treasury management with an adequately funded business plan with sufficient security and is forecast to continue to meet its financial covenants.

NHL's social housing lettings operations continue to generate low returns compared with other providers and, in particular, the social housing lettings interest cover ratio is in the lowest quartile for the sector. We have evidence that NHL has current initiatives in progress to reduce its cost base and which, therefore, should improve returns.

NHL actively manages its development programme to reflect market conditions. This is evidenced by the board's decision to reduce significantly the amount of planned market sales in the last financial year. However market sales continue to remain a major element in NHL's business plan, and represent a high proportion of its overall business activity compared with other providers.

NHL has carried out detailed stress testing across a range of business risks. This has demonstrated that it has the financial capacity to deal with a reasonable range of exposures but needs to manage the material risks arising from its growth and sales strategy to ensure continued compliance. NHL has an appropriate and effective risk management and control framework, which provides assurance that it should be able to manage the material risks identified.

The regulator's assessment of NHL's compliance with the governance elements of the Governance and Financial Viability Standard remains unchanged. Based on the evidence gained from the IDA, the regulator has assurance that NHL's governance arrangements enable it to adequately control the organisation and to continue meeting its objectives.

## **Annex 1: Definitions of Regulatory Processes**

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### **In Depth Assessment (IDA)**

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An IDA is a bespoke assessment of a provider's viability and governance, including its approach to value for money. It involves on-site work and considers in detail a provider's ability to meet its financial obligations and the effectiveness of its governance structures and processes.

### **Stability Checks**

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Based primarily on information supplied through regulatory returns, a stability check is an annual review of a provider's financial position and its latest business plan. The review is focused on determining if there is evidence to indicate a provider's current judgements merit reconsideration.

### **Reactive Engagement**

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Reactive engagement is work which falls outside our planned programmes of work (i.e. scheduled IDAs or the annual Stability Checks). It involves us responding to new intelligence or a developing situation which may have implications for a provider's current regulatory judgement.

### **Stability Checks and Reactive Engagement**

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In some cases, we will publish narrative regulatory judgements which combine intelligence gained from both Stability Checks and Reactive Engagement.

### **Further Information**

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For further details about these processes, please see Regulating the Standards on <http://www.gov.uk/hca>.