Regulator of
Social Housing

Regulatory Update

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Update from RSH

2018 to date

- RSH independence
- Green Paper
- Sector Risk Profile
- Rent Policy
- VFM Standard
- Regulating the Standards

RSH standalone body

- Independent NDPB from 1 October 2018
- Separation from Homes England
- Regulatory functions unchanged
- Independent governance, budgeting, corporate services and SLAs
- Communications and engagement

Green Paper

Green paper consultation

1	**Ensuring homes are safe and decent**	Commitment to implement Hackitt and asks whether the DHS should be updated
2	**Effective resolution of complaints**	Improving and speeding up how complaints are resolved
3	**Empowering residents and strengthening the regulator**	Seeks views on KPIs, resident engagement and changes to the regulator's objectives, approach to consumer regulation and enforcement powers
4	**Tackling stigma**	Celebrating thriving communities and challenging stereotypes of residents and communities
5	**Supply**	Building homes that we need and providing a spring board to home ownership

Response to the green paper

- Government has announced it will publish a response to the Green Paper in the Spring
- Second anniversary of Grenfell approaching
- Also anticipate future announcements on the Hackitt Implementation plan and tall buildings regulator

What might it say?

We don’t know however you might expect:

- It may acknowledge the need to move towards a more proactive regulatory regime for consumer matters
- It may consider the role of KPIs in a more proactive consumer regulation role
- Given the publicity around recent Shelter commission report we might also expect that it gives a view on structure for the new regulatory regime

Sector Risk Profile 2018

Sector Risk Profile – What is it what does it cover?

- Published October 2018, Addendum published February 2019

- The publication is to support Boards. It sets out a wide range of common risks facing the social housing sector

- The risks facing each registered provider will depend upon the nature of that business

- Key increasing risks highlighted this year include:

➢ Health & safety
➢ Reputational
➢ Sales exposure

Sector Risk Profile – Strategic risks

Health & safety risks

- be clear about their landlord responsibilities (stock owned and/or managed)
- have comprehensive control systems in place that staff know how to implement
- Understand the complexities around the type of buildings that they own and/or manage

- **Reputational risks**
- Be aware that their actions will be scrutinised by a wide range of stakeholders
- Deregulation – trading regulatory risk for political risk
- GDPR

- **Value for Money**
- Uses its income efficiently and is transparent about how it does so, it's important that boards challenge the organisations performance

Sector Risk Profile - other key risk areas

The publication also covers:

- Operational risks- stress testing
- Operational risks- existing stock
- Operational risks- development and diversification
- Finance and treasury management risks

Sector Risk Profile – Operational risks

- **Stress testing**
- Registered providers must consider a severe general macro economic shock - BoE (ACS 2018)
- **Existing stock**
- Stock quality (DHS)
- Counter party risks
- Cost v inflation – (impact on new supply)
- Income collection, welfare reform and rents
- Rental market exposure
- Supported housing (funding mechanisms)

Sector Risk Profile – Operational risks

Development and diversification

- Government ambition of new supply – 300,000 per annum by mid 2020's
- But providers need to be aware of the key risk including financial viability
- Sector forecasts to increase development across all tenure types especially outright sales

➢ **Boards must:**

- consider the trade-offs between reinvestment in current stock and development
- Have well developed mitigation strategies in place
- have appropriate skills to control these risks

Sector Risk Profile – Operational risks

- **Leased based funding provision**

- Boards of these registered providers must**:**
  - Understand the funding model
  - Stress test the business plan (including CPI, voids)
  - Understand contractual agreements and have mitigation strategies in place
  - Ensure compliance with the Consumer Standards

  - Addendum to the sector risk profile published in April

Statistical Data Return 2017/18

Welfare Reform Work Act 2016 requirement for 1% rent reduction is broadly on track

Recognise that rent rules are complex

What constitutes an excepted property is a particular area to focus on

Boards need to ensure they understand the requirements and manage the greater risk and potential for error

Last 6 months – common problems that have emerged more than once in small providers

- Non-social housing activity – loss making/contracts lost
- Covenant monitoring – including non-financial
- Development/diversification – skills gap
- Gas/fire safety matters
- Concentration risk in leased based providers
- BUT context of a small proportion – c30 providers.

De-regulation

- Implemented April 2017
- Constitutional and disposal freedoms
- Replaced by simple requirement to notify in certain circumstances
- No significant shift in sector approach identified

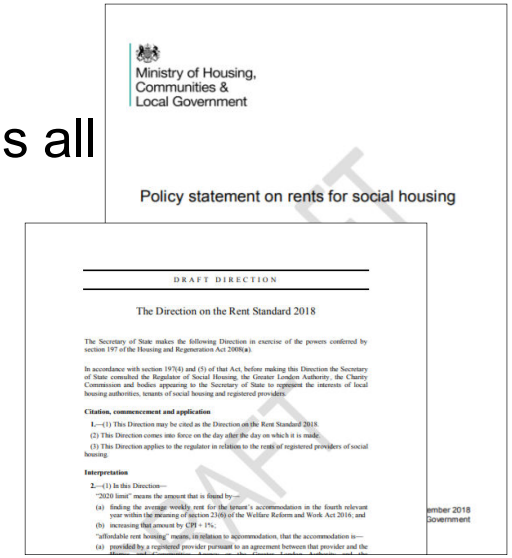
- Where we have followed up

- Consultation with tenants
- Due diligence on purchasers

Rents Policy

Rents policy 2020

- Government has issued a new Direction on the rent standard to the regulator (February 2019)
- Locks in the 4 year 1% reduction and reintroduces CPI +1% rent increases from April 2020
- Proposes that we regulate LA rents for the first time
- Government has committed to the proposals for a minimum period of 5 years
- Government has published a comprehensive *statement on rents for social housing* which outlines all rent setting policy in detail
- RSH to consult on its standard


Ministry of Housing, Communities & Local Government

Policy statement on rents for social housing

DRAFT DIRECTION

The Direction on the Rent Standard 2018

The Secretary of State makes the following Direction in exercise of the powers conferred by section 197 of the Housing and Regeneration Act 2008(a).

In accordance with section 197(4) and (5) of that Act, before making this Direction the Secretary of State consulted the Regulator of Social Housing, the Greater London Authority, the Charity Commission and bodies appearing to the Secretary of State to represent the interests of local housing authorities, tenants of social housing and registered providers.

Citation, commencement and application

1.—(1) This Direction may be cited as the Direction on the Rent Standard 2018.

(2) This Direction comes into force on the day after the day on which it is made.

(3) This Direction applies to the regulator in relation to the rents of registered providers of social housing.

Interpretation

2.—(1) In this Direction—

"2020 limit" means the amount that is found by—

(a) finding the average weekly rent for the tenant's accommodation in the fourth relevant year within the meaning of section 23(6) of the Welfare Reform and Work Act 2016; and

(b) increasing that amount by CPI + 1%;

"affordable rent housing" means, in relation to accommodation, that the accommodation is—

(a) provided by a registered provider pursuant to an agreement between that provider and the

Value for Money

Value for money

New Standard and Code of Practice came into effect on 1 April 2018

RSH objectives:

- Continue to drive improvements in VFM in the sector
- Ensure a strategic approach to delivering VFM is embedded within businesses
- Encourage investment in existing homes and new housing supply
- Enhance the consistency, comparability and transparency of VFM reporting

VFM metrics reports published in September

- Wide range of reported performance on the metrics across the sector
- Boards should understand their own performance and use analysis for context and peer comparison
- Provider-level data published in December with the Global Accounts publication

VFM Metrics

Core Metric	Description
Reinvestment %	Scale of investment in development and capital expenditure on current assets
New supply delivered (SHL and non SHL) %	Units acquired or developed in the year
Gearing %	Proportion of borrowing in relation to size of asset base
Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %	Key indicator for liquidity and investment capacity
Headline social housing cost /unit	Overall SHL costs and main sub-costs per unit
Operating margin (SHL and overall 'Group') %	Operating Surplus, (deficit)/ Turnover
Return on capital employed – ROCE %	Surplus/Deficit PLUS disposal of fixed assets PLUS profit/loss JV's compared to total assets

An overview of VFM reporting in the 2018 accounts

- 2018/19 first year in which registered providers were required to report on the new reporting requirements but given some flexibility.
- Only a minority of registered providers failed to publish data on all of the VFM metrics.
- Some registered providers did not calculate the metrics on the precise basis set out in the regulator's VFM Metrics Technical Note (FVA lines).
- A limited number of registered providers made an effort to report on all the reporting expectations set out in the VFM standard.
- Registered providers who were less transparent or failed to report on all of the metrics on the basis set out in the VFM Technical Note were contacted by the Regulator.

Reporting expectations from 2019

- The freedom on aspects of reporting requirements in the first year of the VFM standard has now expired.

- Registered providers must comply in full with the reporting expectations of the VFM standard (2.2a and 2.2b), this includes:

  - Reporting on performance against providers own value for money targets and the regulators metrics and how that performance compares to peers;
  - Registered providers must be transparent regarding the measureable plans to address any areas of underperformance.

Reporting expectations from 2019

- Registered providers must have clear targets in place to demonstrate that their strategic objectives are being achieved.
- Performance reporting must include all elements of the value chain – Economy, Efficiency and Effectiveness:

- Registered providers must report on actual performance, previous year's performance, future forecast, targets against forecasts in relation to their strategic objectives;
- Registered providers must have plans for improvements if targets were not met **<u>or</u>**
- Where it is not appropriate to undertake improvements this should be clearly stated and the rationale for the decision set out.

VFM reporting – General update

- The VFM Metrics Technical Note (FVA lines) will be updated shortly to reflect the following:

- Changes to the FVA template;
- Additional guidance for small providers

Regulating the Standards

What has changed?

The main changes in this version of RTS are:

- **Differentiated engagement** – the introduction of planned engagement meetings with some providers and biennial IDAs is covered
- **Stress testing** – Re-emphasis of expectations
- **Annex C** of Regulating the Standards which sets out the IDA model amended
- **Interim regulatory judgements** – clarification of our approach in different circumstances

Any questions?