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| Agenda Item: | Item 12 | Date: | 5 November 2018 | | |
| Report Title: | Rent Conversions – Regulatory Communication | | | | |
| Report To: | Calico Homes Board | | | | |
| Author, Position and Telephone Number: | Stephen Aggett, Group Director of Finance 01282686335 | | | | |
| Brief Summary: | <p>As part of the year end process we submitted the 2017/18 annual report and financial statements to the regulator. As usual we receive and respond to any queries.</p> <p>The only query this year was regarding a statement we made as part of a description of our asset management strategy around converting to market rent tenancies.</p> <p>The statement was in error, we are considering all options available to us when assets become void but as yet we have not converted any social housing tenancies to market rent.</p> <p>If you have any questions relating to this report please contact the author prior to the meeting</p> | | | | |
| Summary Of Recommendations | <p>That the Board:</p> <ul style="list-style-type: none"> Note the content of the report | | | | |
| Board Champion: | John Inglesfield | | | | |
| For Decision: | | For Discussion: | | For Information | X |
| Relevance to Corporate Plan (please detail below if not referred to in Corporate Plan): | The report relates to our objectives around good governance. | | | | |
| | Page(s): | | Section(s): | | |
| Value for Money Implication: | N/A | | | | |
| Risk Management/Stress Testing Implications: | We have responded quickly and decisively upon receiving a query from the regulator, acknowledging a wording error and correcting it. | | | | |
| Equality & Diversity Implications: | N/A | | | | |
| Equality Analysis: | Required? | | Yes | No | X |
| Date Equality Analysis Commenced: | N/A | | | | |
| PR/Marketing Implications: | We have put a statement on the website were the annual accounts and report are published. | | | | |
| Customer Demand/Need/ Consultation: | N/A | | | | |
| Social Profit Considerations: | N/A | | | | |
| Calico Values: | <p>We all commit to, and care about going one step further with our customers</p> <p>We all commit to, and care about improving and strengthening ourselves and our organisation</p> | | | | |
| Supporting Documents: | <ul style="list-style-type: none"> Appendix 1 - Website statement | | | | |

Rent Conversions – Regulatory Communication

1. Purpose of the Report

- 1.1 This report updates the Board on actions taken following a query from the regulator.

2. Background

- 2.1 As part of the year end process we submitted the 2017/18 annual report and financial statements to the regulator.
- 2.2 As usual we receive and respond to any queries.
- 2.3 The only query this year was regarding a statement we made as part of a description of our asset management strategy around converting to market rent tenancies.
- 2.4 The statement was in error as we have not converted any social housing tenancies to market rent.

3 Query

- 3.1 Upon submitting the 2017/18 annual report and financial statements we received the following query on 10th October 2018:

“On reading Calico Homes’ Report and Financial Statements as part of this process, I noted that you have a programme to convert properties with low NPV but high open market value to market rent at the point they become void. Please can you clarify if these are social housing units, and if so how you are effecting the conversion within existing legal/regulatory requirements? It might be helpful to comment on any legal advice you received in making these changes.”
- 3.2 From a regulatory perspective conversion from social rent to market rent is classed as a disposal and there are certain requirements placed on us to notify the regulator of any disposal. There would also be legal and regulatory issues for the Board to consider before any conversions took place.
- 3.3 We investigated the query and upon re-reading the section within the strategic report we found that the statement we had made was in error. We have not converted any properties to market rented tenancies. We do have 4 market rented properties but these were ‘converted’ to rented properties from properties held for sale. These properties had never been a social asset and so did not need to follow the reporting regime (we took advice at the time).

4. Actions

- 4.1 We immediately informed the regulator of the wording error (October 11th 2018) and proposed the following actions:
- To inform the Chairs of Homes Board and Audit & Risk Committee (action taken 18th October 2018)
 - Report the incorrect statement to the next Calico Homes Board and Audit & Risk Committee
 - Publish a statement regarding the error alongside the Annual Report and Accounts on the website (Appendix A)
- 4.2 We also informed the external auditor of the error and asked their advice on the matter. The auditor responded saying - The error does not amount to a material misstatement of the accounts, and as such these do not need to be changed.....the accounts remain "True and Fair".
- 4.3 The regulator also sent over to us some information in respect of conversions to market rent in the event this is something we choose to do in the future.

Prior to the coming into force of [s32 WRWA 2016](#) (see below) it would usually have been a breach of the regulator's [Rent Standard](#) for a registered provider to let a social housing dwelling it owns out at a market rent, even for a short time. From 2016 the rules around rent setting for registered providers are prescribed in the Welfare Reform and Work Act 2016 and regulations made under it. As with the Rent Standard this legislation does not permit the conversion of social or affordable rent property to market rent. If you are not clear how these rules apply to these particular units you will need to take appropriate professional advice. This is a complex area, and the social housing regulator cannot provide detailed advice to individual providers. We do however expect all registered providers to ensure that they comply with the legislation

Disposal to a commercial subsidiary

Where a provider wishes, as part of an asset management strategy, to 'convert' a property to market rent in the longer term, a potential route is for it to dispose of the property (potentially to its own commercial subsidiary).

Charitable status

Providers that are charitable need to consider the Charity Commission's [guidance on trading whilst holding charitable status](#) in case there are tax implications involved in renting out property at market rents through a commercial subsidiary.

Potential for grant repayment

It would ordinarily be a 'relevant event' triggering repayment of grant to the HCA/GLA (where this is present) if a provider:

- *disposes of a property to a commercial subsidiary*
- *converts it to market rent*

5. VFM

5.1 There are no value for money considerations

6. Risk

6.1 We minimised any governance risk by responding quickly and decisively upon receiving a query from the regulator. We acknowledged a wording error and corrected it.

7. Recommendations

7.1 It is recommended that Board

- Note the content of the report

Statement – Rent ConversionsStatutory Accounts 2018 - Wording amendment regarding Strategic Report of the Board (Page 3)

The current wording, as shown in the paragraph below, explaining our asset management strategy is in error as it suggests that we have converted some assets to market rent. We have not in fact made any conversions. We are looking at whether this is an option for us in the future but we have not done this yet. We do hold 4 assets at market rent, these assets were originally held for sale but converted to rented properties in a previous year. Our only other “conversions” have been to affordable rent and also re-letting new tenancies at target rent.

Original Text

“We have prioritised the ‘Poor’ and ‘Marginal’ asset groups for review and are continually considering options to improve performance. One example of this, being an asset group with low NPV versus a High Open Market Value. Following an options appraisal against this asset group, we are converting these properties to Market Rent at the point they become void and several properties have since been converted at the point of a new tenancy. The financial impact of this approach is beneficial as the rental income per annum more than doubles. The projected Net Present Value of the asset group, assuming all properties were to be converted, increases from £2,329 to £47,569 over 30 years. ”

Replace with Revised Text

“We have prioritised the ‘Poor’ and ‘Marginal’ asset groups for review and are continually considering options to improve performance. One example of this is an asset group with low NPV versus a High Open Market Value. Following an options appraisal against this asset group, we are considering options regarding these properties at the point they become void. “

John Inglesfield
Chair of Board

Stephen Aggett
Company Secretary