



Regulator of  
Social Housing

**Regulatory Judgement on  
Inclusion Housing Community Interest  
Company 4662**

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**February 2019**

## Publication Details

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### Reason for publication

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First assessment.

### Regulatory process

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In Depth Assessment and Reactive Engagement.

### Governance

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#### **G3 (Non-compliant)**

The provider does not meet our governance requirements. There are issues of serious regulatory concern and in agreement with us the provider is working to improve its position.

### Viability

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#### **V3 (Non-compliant)**

The provider does not meet our viability requirements. There are issues of serious regulatory concern and in agreement with us the provider is working to improve its position.

### 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.

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## Provider Details

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### Origins

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Inclusion Housing Limited (Inclusion) is a not-for-profit registered provider. It provides supported housing and works with care providers to provide accommodation and support for vulnerable adults with complex learning and physical disabilities. The March 2018 Statistical Data Return stated it owned about 1,540 units and managed 274 units for others.

### Registered Entities

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Inclusion is the only registered entity.

### Unregistered Entities

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There are no unregistered entities.

### Geographic Spread and Scale

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At 31 March 2018 Inclusion operated in 73 local authorities nationally with the majority of its stock located in the midlands and the north of England.

### Staffing and Turnover

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According to the March 2018 annual accounts, Inclusion employed on average 42 full time equivalent members of staff and had an annual turnover of £21.6million.

### Development

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Inclusion does not develop new housing. Its growth strategy is to predominately acquire properties to rent under long and short term leases.

## Regulatory Judgement

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This regulatory judgement is the first published assessment of Inclusion's governance and financial viability.

The regulator has concluded that Inclusion does not meet the requirements of the Governance & Financial Viability standard. There are issues of serious regulatory concern and in agreement with us the provider is working to improve the position.

Registered providers are expected to have governance arrangements that ensure they have an effective risk management and internal controls assurance framework, which protects social housing assets and manages their resources effectively to ensure financial viability is maintained, while ensuring that social housing assets are not put at undue risk.

Inclusion has provided insufficient assurance that its current risk management and mitigating actions are commensurate with its risk profile. We lack assurance that steps within its control should risks crystallise would ensure its on-going financial viability and that social housing and tenants homes are protected over economic and policy cycles.

Inclusion's main operation involves entering into long term lease arrangements with the private sector, which is used to provide accommodation to tenants meeting Inclusion's allocation criteria. Inclusion's lease arrangements with its head landlords vary in terms and are often for periods between 20 and 25 years and are index linked. The leases are on 'Full Repairing and Insurance' (FRI) terms which means that income collection, maintenance and repair and operating costs risks are transferred to Inclusion.

Inclusion has ambitious plans to expand its operating model. Its 2017-22 Business Plan envisages growth of about 350 units per annum. Within its current portfolio, while Inclusion is contractually committed to meet the index linked lease premium payments over the long term, it does not benefit from the same level of protection on its income or associated costs incurred.

The information seen by the regulator demonstrates that Inclusion's stress testing and scenario planning identifies that the crystallisation of key risks and the combination of risks identified, on a reasonable range of adverse scenarios has profound effects on the organisation's ability to operate over the long term.

Should the risks identified crystallise, Inclusion's scenario planning has measures and mitigation plans designed to provide a period in which it would aim to achieve successful renegotiation and amendments to multiple agreements with its private sector landlords to enable it to continue to operate. However, this approach demonstrates that Inclusion is reliant on the goodwill of third parties to agree to renegotiation and amendments to agreements. If this strategy was unsuccessful Inclusion indicates that, as mitigation, it may explore insolvency procedures. This could result in the potential loss of the homes from the regulated sector, with inadequate consideration of the re-housing needs of the vulnerable client group housed.

The regulator has concluded that Inclusion has provided insufficient assurance over its ability to manage the reasonable risks associated with economic and policy cycles and adverse changes to its operational environment. It has been unable to adequately demonstrate that it has mitigations and controls in place to protect social housing assets and tenants over the long term. In arriving at this decision the regulator noted the growth aspirations of Inclusion compounding these exposures.

The regulator has also concluded that Inclusion currently does not meet the financial viability element of the governance and financial viability standard. There are issues of serious regulatory concern and in agreement with us the provider is working to improve the position.

The regulator requires that registered providers shall manage their resources effectively to ensure their financial viability is maintained while ensuring that social housing assets are not put at undue risk.

Notwithstanding that Inclusion is currently able to meet its commitments as and when they fall due, it has as yet been unable to demonstrate that the board has ensured that the risks to its financial viability, or the financial implications if risks crystallise, can be effectively managed or mitigated over the life of its contracts.

Inclusion has some limited protection within some of its contracts which would enable it to meet some of the adverse impact. However, as above, mitigations which might be required would fundamentally require significant change to the underpinning assumptions in the current business plan and the realisation of those mitigations would be reliant on multiple third party agreements being reached.

Inclusion has explained to the regulator that its current business plan is predicated upon its material income source (rent) being 'excepted' from the requirements of the Welfare and Work Act 2016 by meeting the specialised supporting housing criteria. Consideration of the provider's approach to rents has not informed this regulatory judgement. However application of the rent requirements is an area that the regulator may explore with Inclusion in the course of on-going engagement.

## 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 unplanned work which is triggered by 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 <https://www.rsh.gov.uk>.