



## Regulatory Notice November 2019

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### Registered Provider

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Larch Housing Association Limited (Larch) (4727) was registered in July 2012, and designated as a not-for-profit provider.

The March 2019 Statistical Data Return (SDR) stated Larch owned and managed 5 units of social housing, and 292 units of non-social housing.

### Regulatory Finding

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The regulator has concluded that:

- a) Larch is non-compliant with the governance and viability elements of the Governance and Financial Viability Standard. Larch has not managed its resources effectively to ensure its viability can be maintained, and has not ensured its governance arrangements deliver an effective risk management framework.
- b) Larch has not been able to demonstrate that it has managed its affairs with an appropriate degree of skill, independence, diligence, effectiveness, prudence and foresight.
- c) Larch has failed to ensure that it has an appropriate, robust and prudent business planning, risk and control framework that ensures sufficient liquidity at all times.

## The Case

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The regulator has concluded that it lacks assurance and evidence that Larch is compliant with both the governance and viability elements of the Governance and Financial Viability Standard. Investigations undertaken by the regulator obtained inadequate assurance over Larch's on-going viability, the effectiveness of its risk management and that the board has managed Larch's affairs with an appropriate degree of skill, diligence, effectiveness, prudence and foresight.

Larch predominately enters into long term indexed linked lease arrangements with the private sector to acquire homes which are then used to provide accommodation to tenants. The properties it acquires are leased on 'Full Repairing and Insurance' (FRI) terms which means that income collection, maintenance and repair and operating costs risks are transferred to Larch.

Larch's business model relies on continued cash income at the right level, and at the right time, to enable it to meet its obligations. The regulator has evidence that Larch has been unable to achieve its income forecasts and this has placed significant stress on its cashflow. As a result, Larch has been unable to meet its obligations under its lease arrangements as and when they fall due. Larch is currently reliant on the continued support of its head landlords forgoing lease payments while solutions are explored.

A required outcome of the governance element of the Governance and Financial Viability Standard is that a registered provider shall ensure it has an effective risk management framework. We lack assurance that Larch has an appropriate risk management framework in place.

One of Larch's key risks is it not receiving the required rental levels from relevant local authorities in order to meet its lease obligations as they fall due. This risk has crystallised and Larch has been unable to achieve its planned rental income. The risk management framework which Larch has in place has not been effective and the lease terms it has entered into mean it has been unable to effectively mitigate and control the impact of this cashflow risk crystallising.

These outcomes mean we lack assurance that Larch is managing its affairs with an appropriate degree of skill, independence, diligence, effectiveness, prudence and foresight.

Larch has committed to work with the regulator to address the issues outlined in this Regulatory Notice and to develop a recovery strategy. The regulator will continue to engage with Larch and is considering whether

further action should be taken, including whether to exercise any of its powers.

Based on its most recent statistical data return, Larch had fewer than 1,000 units and is classed as a small provider. The regulator does not publish regulatory judgements for providers which fall into this category. Instead, in the interests of transparency, the regulator publishes a Regulatory Notice where it has evidence that a small registered provider is not meeting the regulatory standards. This notice is published under those arrangements.