



Regulator of  
Social Housing

## **Regulatory Judgement on New Roots Limited 4798**

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**February 2020**

## 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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New Roots Limited (New Roots) is a not-for-profit registered provider and a charitable company limited by guarantee. It is a registered charity.

In its 2019 Statistical Data Return (SDR) New Roots reported that it has 1,782 supported housing units.

### Registered Entities

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New Roots is the only registered entity.

### Unregistered Entities

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There are no unregistered entities.

### Geographic Spread and Scale

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New Roots solely operates in the Birmingham local authority area.

### Staffing and Turnover

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In its August 2018 annual accounts, New Roots reported that it employed about 46 full time equivalent members of staff and had an annual turnover of £12.2 million.

### Development

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New Roots does not develop new housing. Its growth strategy is to acquire properties to rent under short-term leases.

## Regulatory Judgement

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

The regulator has concluded that it lacks assurance and evidence that New Roots is compliant with the governance and viability elements 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.

New Roots has experienced rapid growth in recent years. The model operated by New Roots means that, whilst it has landlord responsibility for its tenants, it enters into short-term leasing arrangements with a number of third parties for properties. These third parties then also deliver the landlord and management services on New Roots' behalf under an agreement. Some of these third parties with whom New Roots enters into leasing and management arrangements have themselves leased the properties from a range of head landlords.

Following an In-Depth Assessment (IDA) and subsequent investigations the regulator has found:

- Significant weaknesses in New Root's business planning framework
- Inadequate risk management processes and internal controls
- That the board have failed to manage their affairs with an appropriate degree of skill, independence, diligence, effectiveness, prudence and foresight.
- Lack of assurance over probity arrangements and relationships with third party contractors

The regulator has insufficient assurance that New Root's governance, risk management and internal control frameworks are effective or that business planning is robust. The board has failed to demonstrate it understands and is managing the risks it faces or has appropriate mitigation strategies in place to ensure the long-term viability of the organisation and protect social housing assets.

New Roots has been unable to provide the regulator with a business plan that is based on appropriate and reasonable assumptions. There are significant gaps and inconsistencies between figures contained in its financial plan and key supporting information, and New Roots is unable to demonstrate that its rents assumptions are compliant with relevant legislation. The New Roots' board recognises a review of its business plan is required and has commissioned a review of underlying key assumptions. However, until this review is complete the board is unable to provide a business plan that it can rely upon, demonstrating New Roots' on-going viability with the capacity to manage a range of reasonable scenarios. The regulator therefore concludes that New Roots is unable to demonstrate that it meets the viability outcomes of the Governance and Financial Viability Standard.

New Roots has been unable to demonstrate that the risks associated with its model are being appropriately managed and mitigated. There has been an

absence of key information supplied to the board. Evidence seen by the regulator has identified occasions where the board had not been fully informed, or have not been requested to make decisions, on material events.

The regulator does not have assurance that New Roots has effective systems in place to give it sufficient oversight of the arrangements it has entered into with multiple third parties, who deliver landlord services on its behalf, and to whom on-going payments are made.

The Governance & Financial Viability standard requires that providers shall ensure that appropriate probity arrangements are in place. Inherent conflicts of interest relating to former board members and employees of New Roots were identified. The board has been unable to provide compelling evidence that appropriate probity policies and arrangements were in place to effectively manage these conflicts. In the absence of evidence to the contrary, the regulator has concluded that these arrangements, could be inappropriately advancing the interests of a third party.

A lack of effective board oversight in a range of areas is a fundamental failure of governance and operational control.

In response to the regulator's engagement New Roots has refreshed and renewed its board with the appointment of new independent board members and sought temporary additional executive support. The board, with the support of its advisors, has developed a financial and governance improvement action plan which also aims to address and review all its stock in terms of statutory compliance and repairs. It has also sought to address the conflicts of interest identified. The board is in the process of implementing this action plan. The board has provided assurance that it has sufficient liquidity to meet its short-term obligations as it considers its future strategic direction.

The refreshed New Roots' board has committed to work with the regulator to address the issues outlined in this regulatory judgement. The regulator is actively working with New Roots and will closely monitor the delivery of the improvement plan adjusting its strategy accordingly while keeping the use of its intervention powers under review.

## **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>