



Homes &
Communities
Agency

Annex 1: Business engagement assessment



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Business Engagement Assessment

Title of proposal	Consultation on introducing fees for social housing regulation, November 2016
Lead regulator	<i>Homes and Communities Agency – the social housing regulator</i>
Contact for enquiries	<i>Referrals and Regulatory Enquiries team 0300 1234 500 (option 2) consultation@hca.gsi.gov.uk</i>

Date of assessment	<i>November 2016</i>	Stage of assessment	<i>Draft</i>
Net Cost to Business (EANCB)	<i>N/A</i>	Commencement date	<i>April 2017</i>
Which area of the UK will be affected by the change(s)?	<i>England</i>	Price and Present value base years	<i>N/A</i>
Does this include implementation of Red Tape Challenge commitments?	<i>No</i>	Is this directly applicable EU or other international legislation?	<i>No</i>

Brief outline of proposed change in regulatory action

1. The regulator is proposing to introduce a fee charging regime for registered providers of social housing in line with its statutory powers. Section 117 of the Housing and Regeneration Act 2008 gave the regulator the power to charge a fee for new registrations and an annual fee for continued registration. It is proposed that the costs of regulation would be met partly through grant-in-aid and partly through fees paid by the sector from April 2017.

Why is the change proposed? Evidence of the current problem?

2. Charging fees for regulation is common in other regulated sectors. The regulated sector is also becoming more complex and diverse and faces higher levels of financial risk, whilst there is growing pressure on public finances. Against this backdrop, the regulator needs to ensure it can maintain the right skill base and capacity to enable effective regulation to continue into the future.
3. We believe it is reasonable to ask providers to contribute towards the costs of regulatory services. Registered providers of social housing derive a number of benefits from being part of a regulated sector. These include lower borrowing costs and better capital weighting of debt issued by registered providers as well as the comfort stakeholders take from doing business with a regulated organisation.

Which types of businesses will be affected? How many are affected?

4. The regulator is proposing to charge a fixed fee of £2,500 in relation to all successful applications for initial registration. We would normally expect in the region of 20 such registrations per annum. Potential registered providers which do not in the end go on to the register would not be affected.
5. The regulator is proposing to charge annual fees to private registered providers of social housing and no other businesses will be affected. On the basis of the 2016 Statistical Data Return, at group rather than entity level there were 243 large private registered providers (owning 1,000 units or more) and 1,033 small private registered providers (owning fewer than 1,000 units). Of these, 30 were profit making providers.

- Existing registered providers are able to de-register provided they satisfy the relevant requirements. Although local authorities are registered providers it is not proposed that they will be charged fees for social housing regulation.

How will the change impact these businesses?

- In developing proposals for how a fee regime should work, the regulator has considered carefully what the impact would be on registered providers. A fees discussion paper in 2014 set out the key options in relation to the approach taken to the design of the initial registration fee and annual fee. A number of options were ruled out on the basis of their impact on providers.
- The full discussion on the differential impacts of different options was set out in the discussion paper and is not reproduced here. This assessment focuses on implications for registered providers arising out of the regulator's proposals set out in this statutory consultation.

Impact of charges on registered providers – initial registration charge

- The regulator wishes to ensure that initial registration fees do not deter potential new providers from registering. Some discussion paper responses suggested this could particularly be an issue for small community led providers or niche providers catering for particular groups. The regulator wants to maintain diversity within the sector as a means of encouraging supply and ensuring choice for tenants, so it is important that such providers are not adversely affected.
- Accordingly, for new providers joining the register after April 2017, the regulator proposes to minimise the costs of the initial registration fee by not passing on the full costs of carrying out the registration, and instead limiting the initial registration fee to £2,500. In order to keep initial registration fees to this level, the rest of the actual costs of registration would continue to be met through grant-in-aid. We are continuing to seek views on this level of registration fee through the statutory consultation published alongside this assessment.

Impact of charges to registered providers – annual fee

- Private registered providers on the register, both profit-making and non-profit, would be required to pay an annual fee to the regulator based on the number of social housing units they own. Local authority registered providers would not be charged fees at all. They are subject only to consumer regulation and these comparatively small costs would continue to be met out of grant-in-aid rather than fees.
- The impact on existing private registered providers would depend on two key variables. Firstly, the apportionment of the regulator's total costs between grant-in-aid funding and fees income; and secondly the regulator's total costs year by year. The current proposal is for 83% of the regulator's costs to be recovered through fees.
- The regulator's estimated budget for 2017/18 is £15 million. We have undertaken impacts modelling on the basis of this budget and the results indicate that:
 - for all large providers fees would represent no more than 0.14% of turnover;
 - there would be one group charged between £300,000 and £350,000 (although this is set to change due to the planned Affinity Sutton-Circle merger);

- there would be seven groups charged between £200,000 and £300,000 per annum
 - there would be 26 groups charged between £100,000 and £200,000;
 - more than 99.5% of small providers would pay less than 3% of turnover in fees and more than 90% of small providers would pay less than 1%; and
 - only one provider would pay more than 5% - this would represent 6.5% of turnover but the financial statements indicate the provider would not have difficulty in paying this amount.
14. In the discussion paper responses some concern was raised about the impacts of the annual fee on BME providers. In particular, some responses said that there could be potential impacts on smaller providers which specifically cater for BME tenants and other minority groups. The regulator has separately considered the impact on BME providers¹ and in the analysis undertaken fees only represented 0.15% of turnover as a maximum for each provider.
15. Overall, given the small proportion of turnover taken up by fees shown by this modelling, we believe that the indicative annual fees should not prove unaffordable to existing providers or create any significant impact on services to tenants

Impact on small businesses

16. It can be seen from the modelling above that fees for small providers with less than 1,000 units will make up a higher proportion of their turnover than for larger providers. As discussed above, the regulator recognises the particular benefits which smaller providers can bring to the sector and so the impact on small businesses has been considered carefully. However, given the results of the analysis the regulator does not consider the proposed fee levels to be unsustainable for even the smallest businesses operating as private registered providers of social housing. In the regulator's view it is reasonable to expect all providers to pay if they wish to receive the benefits of being part of a regulated sector.

¹ For the purposes of this analysis BME providers were identified through their membership of BME National, a collective of over 60 BME housing associations operating within England.