

Title: Exemption from Financial Services Authority regulation for Registered Housing Associations in Northern Ireland Lead department or agency: HM Treasury Other departments or agencies: Department for Social Development Northern Ireland	Impact Assessment (IA)
	IA No:
	Date: 21/12/2010
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Secondary legislation
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Summary: Intervention and Options

What is the problem under consideration? Why is government intervention necessary?

Registered housing associations in England, Wales and Scotland are exempt from FSA regulation when engaging in sale and rent back arrangements, because they already fall under the supervision of the regulator of social housing in that jurisdiction. Registered housing associations in Northern Ireland (NI) are not exempt, although they are regulated by the Department for Social Development NI. The Department for Social Development NI is considering a mortgage rescue scheme, which would involve properties being sold to a registered housing association and leased back to the occupant. Without an exemption from FSA regulation for registered housing associations, a mortgage rescue scheme in Northern Ireland would face a prohibitive regulatory and financial burden.

What are the policy objectives and the intended effects?

The policy objective of this proposed amendment is to achieve parity of treatment for registered housing associations in England, Wales, Scotland and Northern Ireland.

Social housing is a devolved matter. The decision to provide a mortgage rescue scheme in Northern Ireland is a decision for the Department for Social Development NI from their own budget. The effects of the scheme will depend on how the Department for Social Development NI chooses to implement any scheme and therefore are outside the scope of this Impact Assessment.

What policy options have been considered? Please justify preferred option (further details in Evidence Base)

The Government has considered the following options:

- option 0 - maintain existing regulatory framework; and
- option 1 - amend Financial Services and Markets Act 2000 (Exemption) Order 2001, to exclude registered housing associations in Northern Ireland.

The Government intends to proceed with the second option, and amend the Financial Services and Markets Act 2000 (Exemption) Order 2001.

When will the policy be reviewed to establish its impact and the extent to which the policy objectives have been achieved?	It will be reviewed
Are there arrangements in place that will allow a systematic collection of monitoring information for future policy review?	Yes

SELECT SIGNATORY Sign-off For final proposal stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) the benefits justify the costs.



Signed by the responsible Minister:

Date: 15/12/2010

Summary: Analysis and Evidence

Policy Option 1

Description:

Amending the Financial Services and Markets Act 2000 (Exemption) Order 2001 to exclude registered housing associations in Northern Ireland.

Price Base Year 2009	PV Base Year 2009	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £3.4m	High: £5.4m	Best Estimate: £3.4m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	N/A	N/A	0

Description and scale of key monetised costs by 'main affected groups'

N/A

Other key non-monetised costs by 'main affected groups'

N/A

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	Optional	Optional	Optional
High	Optional	Optional	Optional
Best Estimate	£528,000	£330,000	£3.4m

Description and scale of key monetised benefits by 'main affected groups'

As registered housing associations will be exempt from FSA regulation, a transition cost saving of £528,000, an annual cost saving of £330,000, and a cost saving of £3.4 million npv over ten years will be achieved. These figures are based on the FSA consultation paper (CP 09/22) and each of the 33 registered housing associations in Northern Ireland benefiting from one-off cost savings of £16,000 and ongoing cost savings of £10,000 per annum.

Other key non-monetised benefits by 'main affected groups'

Social housing is a devolved matter. The decision to provide a mortgage rescue scheme in Northern Ireland is a decision for the Department for Social Development NI from their own budget. As a result, the benefits will depend directly on how the Department for Social Development NI chooses to implement any scheme and therefore are outside the scope of this Impact Assessment.

Key assumptions/sensitivities/risks

Discount rate (%)

0

The Department for Social Development NI has advised the Government that all 33 registered housing associations in Northern Ireland will want to be in a position to offer a mortgage rescue scheme. This Impact Assessment assumes that that if a scheme was launched all registered housing associations in Northern Ireland would apply for authorisation within 12 months.

Impact on admin burden (AB) (£m):			Impact on policy cost savings (£m):	In scope
New AB:	AB savings:	Net:	Policy cost savings: £3.4m	Yes

Enforcement, Implementation and Wider Impacts

What is the geographic coverage of the policy/option?			Other		
From what date will the policy be implemented?			01/01/2011		
Which organisation(s) will enforce the policy?			N/A		
What is the annual change in enforcement cost (£m)?			N/A		
Does enforcement comply with Hampton principles?			Yes		
Does implementation go beyond minimum EU requirements?			No		
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/A	Non-traded: N/A	
Does the proposal have an impact on competition?			No		
What proportion (%) of Total PV costs/benefits is directly attributable to primary legislation, if applicable?			Costs: N/A	Benefits: N/A	
Annual cost (£m) per organisation (excl. Transition) (Constant Price)	Micro N/A	< 20 N/A	Small £0.33	Medium N/A	Large N/A
Are any of these organisations exempt?	No	No	No	No	No

Specific Impact Tests: Checklist

Set out in the table below where information on any SITs undertaken as part of the analysis of the policy options can be found in the evidence base. For guidance on how to complete each test, double-click on the link for the guidance provided by the relevant department.

Please note this checklist is not intended to list each and every statutory consideration that departments should take into account when deciding which policy option to follow. It is the responsibility of departments to make sure that their duties are complied with.

Does your policy option/proposal have an impact on...?	Impact	Page ref within IA
Statutory equality duties¹ Statutory Equality Duties Impact Test guidance	No	
Economic impacts		
Competition Competition Assessment Impact Test guidance	No	
Small firms Small Firms Impact Test guidance	No	
Environmental impacts		
Greenhouse gas assessment Greenhouse Gas Assessment Impact Test guidance	No	
Wider environmental issues Wider Environmental Issues Impact Test guidance	No	
Social impacts		
Health and well-being Health and Well-being Impact Test guidance	No	
Human rights Human Rights Impact Test guidance	No	
Justice system Justice Impact Test guidance	No	
Rural proofing Rural Proofing Impact Test guidance	No	
Sustainable development Sustainable Development Impact Test guidance	No	

¹ Race, disability and gender Impact assessments are statutory requirements for relevant policies. Equality statutory requirements will be expanded 2011, once the Equality Bill comes into force. Statutory equality duties part of the Equality Bill apply to GB only. The Toolkit provides advice on statutory equality duties for public authorities with a remit in Northern Ireland.

Evidence Base (for summary sheets) – Notes

Use this space to set out the relevant references, evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Please fill in **References** section.

References

Include the links to relevant legislation and publications, such as public impact assessment of earlier stages (e.g. Consultation, Final, Enactment).

No.	Legislation or publication
1	Financial Services and Markets Act 2000 (Exemption) Order 2001
2	
3	
4	

+ Add another row

Evidence Base

Ensure that the information in this section provides clear evidence of the information provided in the summary pages of this form (recommended maximum of 30 pages). Complete the **Annual profile of monetised costs and benefits** (transition and recurring) below over the life of the preferred policy (use the spreadsheet attached if the period is longer than 10 years).

The spreadsheet also contains an emission changes table that you will need to fill in if your measure has an impact on greenhouse gas emissions.

Annual profile of monetised costs and benefits* - (£m) constant prices

	Y ₀	Y ₁	Y ₂	Y ₃	Y ₄	Y ₅	Y ₆	Y ₇	Y ₈	Y ₉
Transition costs										
Annual recurring cost										
Total annual costs										
Transition benefits	0.528									
Annual recurring benefits	0.330	0.330	0.330	0.330	0.330	0.330	0.330	0.330	0.330	0.330
Total annual benefits	0.858	0.330	0.330	0.330	0.330	0.330	0.330	0.330	0.330	0.330

* For non-monetised benefits please see summary pages and main evidence base section

Evidence Base (for summary sheets)

Introduction

Sale and rent back schemes allow public or private sector organisations to buy a property and rent it back to the occupant. This can allow struggling homeowners to avoid the distress and expense of repossession.

Registered housing associations in England, Wales and Scotland are exempt from regulation when engaging in sale and rent back arrangements. This is because they are already regulated by the Tenant Services Authority (moving to the Homes and Communities Agency in April 2012), the Welsh Assembly, and the Scottish Housing Regulator respectively. Registered housing associations in Northern Ireland (NI) do not have the same exemption, although they are now regulated by the Department for Social Development NI.

The Department for Social Development NI is considering introducing a mortgage rescue scheme. This would involve properties being sold to a registered housing association, and then leased back to the occupant. Without this change to regulation, housing associations in Northern Ireland who participate in a mortgage rescue scheme would face dual supervision as a result of FSA regulation and audit accountability to the Department for Social Development NI. This would mean a mortgage rescue scheme would face a prohibitive financial and regulatory burden.

The Government therefore intends to amend the Financial Services and Markets Act 2000 (Exemption) Order 2001, to exempt registered housing associations in Northern Ireland from FSA regulation for all mortgage-related activities.

Regulation of registered housing associations in Northern Ireland

The Department for Social Development carries out a statutory regulatory function on behalf of the Government. Registered housing associations in Northern Ireland have audit accountability to the Department for Social Development NI.

The demonstration of this accountability is the statutory role for the Department contained in Article 19 of the Housing (Northern Ireland) Order 1992. This gives the Department power by Order to specify the information that must be shown in the annual accounts and provides that the auditor's report must state whether the accounts comply with these requirements. The Article also requires each association to supply the Department with a copy of the accounts and the auditor's report within 6 months of the period to which they relate. Article 20 provides for proceedings against each of those concerned with the conduct and management of an association and in that capacity responsible for the preparation and audit of accounts if Article 19 is not complied with.

The Code of Audit Practice for Registered Housing Associations issued by the Department advises associations on the Department's requirements and recommendations for effective audit coverage. This includes the discharge of their responsibilities for the appointment and continuing working relationship with external auditors. It also sets out the minimum requirements for external and internal audit coverage relating to the maintenance of effective internal control and management systems and the broad framework in which they should operate.

Costs

By exempting registered housing associations in Northern Ireland from FSA regulation, the Government is providing a cost saving for the registered housing associations.

There is no cost to the Department for Social Development NI or consumers in Northern Ireland.

Benefits

We have classed the cost savings to NI housing associations as a benefit.

The Department for Social Development NI has advised the Government that there are 33 registered housing associations in Northern Ireland, and that all of these will be in a position to offer a mortgage rescue scheme.

This Impact Assessment therefore assumes that if a scheme was launched by the Department for Social Development NI, all registered housing associations in Northern Ireland would apply for authorisation within 12 months.

The FSA consultation paper (CP 09/22) on regulating sale and rent back stated that firms faced one off costs of between £16,000 and £36,000, and ongoing costs of between £10,000 and £15,000 per annum. As a result, the transitional benefit to these firms will be the saving of one off costs which include the cost of compiling an application, the application fee and familiarisation with the conduct of business rules. The ongoing benefit to these firms will be the saving of annual costs including systems and controls, training and competence requirements, maintaining a complaints procedure, reporting obligations and fees.

Given that registered housing associations are likely to be small firms, this Impact Assessment has presumed that the cost saving will be at the minimum of this range. As a result, we anticipate a year-one cost saving of £858,000, and a cost saving of £3.4 million NPV over ten years for registered housing associations in Northern Ireland as a result of being exempt from regulation.

Without the exemption from FSA regulation, a mortgage rescue scheme in Northern Ireland will face a prohibitive financial and regulatory burden. This Impact Assessment therefore considers the change in regulation would allow the scheme to be established, and that the principal beneficiaries of the regulation would be the recipients of the scheme.

The benefits of the mortgage rescue scheme for consumers are not quantifiable. As housing is a devolved matter, the provision of a mortgage rescue scheme in Northern Ireland is a decision for the Department for Social Development NI from their own budget. As a result, the benefits will depend on how the Department for Social Development NI chooses to implement any scheme. They are therefore outside the scope of this Impact Assessment.

Furthermore, the legislation means that housing associations in Northern Ireland would be exempt from all mortgage activities, not just sale and rent back. This would give them the flexibility to introduce different schemes or facilities in the future, for example, shared equity mortgages.

There will be no wider impacts as a result of amending Financial Services and Markets Act 2000 (Exemption) Order 2001 to exempt registered housing associations in Northern Ireland.

Annexes

Annex 1 should be used to set out the Post Implementation Review Plan as detailed below. Further annexes may be added where the Specific Impact Tests yield information relevant to an overall understanding of policy options.

Annex 1: Post Implementation Review (PIR) Plan

A PIR should be undertaken, usually three to five years after implementation of the policy, but exceptionally a longer period may be more appropriate. A PIR should examine the extent to which the implemented regulations have achieved their objectives, assess their costs and benefits and identify whether they are having any unintended consequences. Please set out the PIR Plan as detailed below. If there is no plan to do a PIR please provide reasons below.

<p>Basis of the review: [The basis of the review could be statutory (forming part of the legislation), it could be to review existing policy or there could be a political commitment to review];</p> <p>The Department for Social Development NI will assess the effectiveness of the amendment by carrying out a post-project evaluation of their mortgage rescue scheme following two full years of operation which will review the Sale and Rent Back Regulation. The Department also intends to review other permitted activities which include offering mortgages as part of shared equity deals.</p>
<p>Review objective: [Is it intended as a proportionate check that regulation is operating as expected to tackle the problem of concern?; or as a wider exploration of the policy approach taken?; or as a link from policy objective to outcome?]</p> <p>This will seek to address whether the original objectives have been achieved and assess the effectiveness and use of the amendment to complete Sale and Rent Back purchases under the mortgage rescue scheme.</p>
<p>Review approach and rationale: [e.g. describe here the review approach (in-depth evaluation, scope review of monitoring data, scan of stakeholder views, etc.) and the rationale that made choosing such an approach]</p> <p>The Department for Social Development NI intends to monitor and assess progress of the mortgage rescue scheme. Both interim and in-depth evaluation will be carried out at the end of a 2 year period which will examine delivery of specific objectives which will include carrying out interviews to obtain the views of stakeholders etc. This will provide the information required to consider both the effectiveness of the scheme and the need for the foreseeable future.</p>
<p>Baseline: [The current (baseline) position against which the change introduced by the legislation can be measured]</p> <p>N/A</p>
<p>Success criteria: [Criteria showing achievement of the policy objectives as set out in the final impact assessment; criteria for modifying or replacing the policy if it does not achieve its objectives]</p> <p>Registered housing associations in Northern Ireland and the Department for Social Development NI will be able to operate their mortgage rescue scheme without the additional burden of dual supervision.</p>
<p>Monitoring information arrangements: [Provide further details of the planned/existing arrangements in place that will allow a systematic collection systematic collection of monitoring information for future policy review]</p> <p>The Department for Social Development NI intends to develop a series of mechanisms with a scheme administrator to monitor and assess progress of the mortgage rescue scheme. Evaluation data will be obtained using a comprehensive range of qualitative and quantitative techniques and will seek to measure both outputs and outcomes from the scheme.</p>
<p>Reasons for not planning a PIR: [If there is no plan to do a PIR please provide reasons here]</p> <p>N/A</p>

Add annexes here.