



# Homes & Communities Agency

The social housing regulator

31<sup>st</sup> July 2015

Dear Chair

I apologise for the impersonal nature of this letter, but I am sure you will appreciate our need to communicate quickly with the whole sector. As Chair of the HCA's Regulation Committee, I recently wrote to the larger registered providers about the impact of the measures announced in the recent budget on their businesses. As those announcements will equally affect all providers of social housing, I am now writing to smaller providers, those with fewer than 1,000 homes

The budget announcement on reducing rents in the social housing sector by 1% each year for four years from April 2016 in place of an anticipated uplift of CPI plus 1% will have a substantial impact on most providers' business plans. As with all of the regulator's standards, the rent standard applies equally to small providers as to large ones. Ongoing welfare reform, including the introduction of a lower benefit cap, is also likely to have an effect on business plans.

In addition you will be aware that government has a manifesto commitment to extend the Right to Buy scheme to registered providers that may also impact on your organisation.

We understand that whilst the broad thrust of the changes is clear there is still further detail to come about the rent regime, the 'pay to stay' policy for higher income tenants, and the extension of right to buy. We also understand that some consequences may be difficult to predict at this stage, and clearly market conditions will also be difficult to predict for some time. However, I am writing to you now to make clear the regulator's expectation that your board will be considering the impact of the changes now.

We expect your board to be able to demonstrate that

- in considering its response to the budget, you understand the scale of the changes;
- you have deliverable plans for any remedial actions needed to be able to trade through those changes;
- you have considered all relevant issues, but in particular the impact of the proposed changes on cash flow, covenant compliance, security requirements and re-financing;
- you understand which actions are under your control and where you will need the cooperation of other stakeholders;
- you have tested those plans with robust stress testing.

It is for you and your board to determine how to adapt your business plan and priorities to this changed environment and determine the best way of meeting your objectives. We anticipate that most associations will wish to look at their cost structure and consider areas

where it is possible to re-prioritise expenditure. Some providers may conclude that an independent future is no longer possible and seek a merger partner.

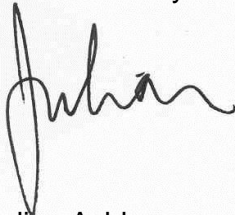
While all associations are likely to feel the effect of these changes, we recognise that for some, the impact will be more challenging. If you believe that your association is not able to adapt to these changes then you must notify us straight away - in particular if you identify either viability or liquidity problems or that you will be unable to comply with lender covenants or requirements. We can then look at the strategic options and consider how the matter might best be resolved. Please contact our Referrals and Regulatory Enquiries team by email to [mail@homesandcommunities.co.uk](mailto:mail@homesandcommunities.co.uk) or by phone to 0300 1234500 (Option 3) or write to:

Referrals & Regulatory Enquiries Team  
1<sup>st</sup> Floor  
Lateral  
8 City Walk  
Leeds  
LS11 9AT

Our approach to regulating providers with fewer than 1,000 units remains unchanged and, as you may be aware has recently been updated in our publication *Regulating the Standards*. Details of our regulatory framework and the standards can be found [here](#). Our recent publication setting out how we regulate the standards can be found [here](#).

We continue to work with DCLG on all the policy areas announced in the budget and manifesto and further information will be supplied as soon as possible.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Julian', written over a light grey rectangular background.

Julian Ashby  
Chair of the HCA Regulation Committee