Homes &
Communities
Agency

The social housing regulator

20 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 you will be aware, the budget announcement on reducing rents in the social housing sector by 1% each year for four years from April 2016 and other welfare reform policies will have a substantial impact on most associations' 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 will impact on your organisation. 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 are sure that you will be addressing any challenges to your business as a matter of priority.

Given the changes to the external environment and risks faced by registered providers, it is important that we review our current regulatory approach and, where appropriate, seek additional assurance to ensure that our published view of providers remains robust and up to date. As is our usual practice, we will be focusing on the assurance boards have of compliance with the standards, in particular the viability aspect of the Governance and Financial Viability Standard.

We 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. 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 business is not able to adapt to these changes then we expect you to discuss this with the regulator straight away, so that we can look at the strategic options and how we can work with you. 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.

It is for you to decide whether and how you will need to reconfigure your business in the light of these changes. We anticipate that most associations will wish to look at their cost structure and consider areas where it is possible to re-

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prioritise expenditure. However we will require further information from organisations:

1. Last month you submitted your annual Financial Forecast Return (FFR) to us based on pre-budget assumptions. Given the potentially significant changes, we require that a revised FFR is submitted, updated to reflect the impact of the changes in government policy including rent reductions, welfare changes etc., and taking account of mitigating actions you are proposing to take and have agreed with your board. Revised FFR returns, along with the Board papers (both report and minutes) setting out your proposed plans to cope with the impact of changes must be submitted as soon as possible and in any event by no later than noon on 30 October 2015. This should give you time to consider an initial response to the changed circumstances and approve a revised business plan.   This will enable us to assess the impact on individual providers and to work through the consequences of the changes. We will contact you again shortly setting out the process and timetable for submitting the revised FFR in more detail.
   Through these returns we will be seeking assurance that:

   - in considering its response to the budget, the board understands 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.

2. The additional assurance sought does not alter our intended regulatory approach (as set out in Regulating the Standards). However, we will use the October FFR information provided, along with your statutory accounts, to undertake the first Stability Check.

3. Over the summer we will engage with individual associations where we consider that an early discussion will be beneficial to understand whether an association may find the changes particularly challenging.

4. If necessary we may ask other providers for early sight of their board papers if we have reason to be concerned that they are not addressing the changes in the operating environment resulting from this policy.

Please note that, as with any data return, failure to provide accurate FFR returns duly considered and approved by the Board will give rise to cause for regulatory concern. We also understand that whilst the broad thrust of the changes is clear there is still further detail to come about the rent regime, pay to stay, and the extension of right to buy and understand that in October, revised plans will not yet have fully developed mitigations for all these changes, particularly where the detail is unknown.

Finally, may I reiterate that if, at any point during the course of developing your revised business plan and approach, you anticipate that you may not be compliant with the viability aspects of the Governance and Financial Viability standard, in particular if you identify either potential covenant compliance or liquidity problems, then you must get in touch with us as soon as this becomes apparent, as required under the governance standard, and in line with co-regulation. In that event we would work with you to consider how the matter might best be resolved.

Yours sincerely

Julian Ashby
Chair of the HCA Regulation committee

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