



Directions to the Tenant Services Authority - G.15 Response to the Consultation Paper

Introduction

G15 is a group of London housing associations and comprises:

A2 Dominion Group	Metropolitan Housing Trust
Affinity Sutton	Notting Hill Housing
AmicusHorizon Group	Network Housing Group
Catalyst Housing Group	Peabody
Circle Anglia	Southern Housing Group
East Thames Group	The Hyde Group
Family Mosaic	The L&Q Group
Genesis Group	

G15 makes a significant contribution to London life. Collectively, G15 associations house around one in ten Londoners and manage around 410,000 homes. We build over 10,000 new homes every year. We invest over £25m annually in economic and community development to create thriving, sustainable neighbourhoods across the capital.

Q1 Do you support the Government's preferred option (to direct on rents, quality of accommodation and tenant involvement only)?

R1 Although the power to direct is covered in section 197 of the Housing and Regeneration Act 2008 (HRA 2008) we fail to understand why the government has decided to select tenant involvement for specific direction. We would have thought that specific direction was unnecessary and could more effectively be dealt with via the setting of national standards, given the general remit and fundamental objectives of the TSA.

Q2 Do you agree with the principle and the detail of our proposed direction on rent policy?

The proposal to set a target rent cap at -2% rather than 0% will pose a major threat to the discretionary activities that many RSLs undertake, and may also have an impact on our development programmes, as the scope for absorbing cuts in our income is very limited, for the reasons set out below. These activities, which we have in the past branded as 'In Business for Neighbourhoods', play a vital role in supporting the delivery of the Government's place making, community regeneration and employment policies.

- Despite the 5% rent increase and the fall in interest rates most RSLs will have much lower surpluses in 2009/10 than 2008/9 and earlier

- years, because of the collapse in profits from LCHO sales and staircasing.
- The efficiency improvement pressures resulting from the housing market crash and the resultant fall in surpluses, coupled with previous Government/Housing Corporation efficiency improvement pressures, means that the scope for further efficiency savings is very limited.
 - Changes in RSL costs do not mirror changes in RPI:
 - The biggest cost is pay. RSLs are not going to be able to reduce salary levels in 2010/11, and indeed in places like London they are likely to have to agree to some increases.
 - The second biggest cost is repairs. As the housing and property markets recover in 2010/11 we expect construction industry costs to rise.
 - The third biggest cost for large developing RSLs is debt charges. RSLs will face significant increases in financing costs in 2010/11, as interest rates rise and banks re-build their profit margins.
 - Pensions are also a significant cost, and the cost of these will rise significantly as pension providers seek to reduce their deficits.
 - It seems certain, therefore that overall RSL costs will rise significantly in 2010/11.
 - The squeeze on the supported housing and temporary housing budgets is likely to be intensified in 2010/11, reducing the margins that RSLs can secure in these areas.
 - RSLs will do all they can to secure further efficiencies to offset these cost increase pressures. But if we are forced to reduce rents by up to 2% this is bound to mean cuts in the discretionary activities that we undertake such as employment and training and community regeneration initiatives. And it may impact on our new housing development programmes.

We would hope that the separate (and later) direction for local authorities enables the ongoing harmonisation of association and local authority gross rents to continue.

To avoid the confusion for local authority and RSL tenants, and to enable the stated aim of Rent Restructuring to eliminate the disparity between rents for similar properties, it would be much better for the TSA to be directed by the Government on local authority rents sooner rather than later. The Government has, in the last couple of years, allowed local authorities to limit their rent increase and to delay rent convergence, which has only increased confusion and dissatisfaction among RSL tenants.

The current guidance for Rent Restructuring should be reviewed as soon as possible and replaced, after consultation. The economic landscape has changed beyond recognition during the period since 2000 and the guidance needs to be updated.

Q3 Is the draft rent direction technically correct as a means of achieving current policy, and if not, what are the implications?

R3 It is our understanding that this is the only change being proposed to the existing formula (and repeated at paragraph 32).

We believe that the direction should not apply to low cost homeownership and intermediate rent (30). In addition we believe that by and large the requirements of pre-existing contracts should determine rent levels. We do not agree that “the direction would technically take precedence over the private agreement” (30). Although the direction gives the TSA some “wriggle room”, we would rather that the direction explicitly leaves this to the TSA to decide in consultation with providers. This is in line with previous decisions going back to the beginning of rent restructuring.

Q4 Do you agree that the direction should allow a floor (of Minus 2 percent) on rent rises, so that landlords are not obliged to reduce their rents by more than 2%?

We welcome the proposed floor mechanism, though not the rate that it has been set at. We also welcome the directions flexibility in allowing the TSA to work with associations who may face particular problems as a result of the 2% floor (38).

RPI is only one measure of inflation and, at August 2009, the only negative measure. At August the various measures of inflation were:

RPI	(1.3%)
RPIx (excl mortgages)	1.4%
RPIy (excl mortgages and taxes)	2.3%
CPI	1.6%

The disparity between RPI and the other measures confirms what has been happening in the sector over many years – operational cost increases within RSLs were being counterbalanced by reductions in interest rates and bank margins. The dynamics of this equilibrium have dramatically changed due to the recent economic upheavals.

RSLs’ major costs, apart from interest, are mostly people related, - salaries and repairs (mainly labour). Over the last 30 years wages and salary inflation has been about 40% higher than RPI and very likely to remain so. However the overall cost of borrowing, although currently lower than the recent past due to base rate reduction, will increase sharply in the longer term when base rates return to “normal levels”.

Therefore RPI is far from the ideal measure of how RSLs’ costs behave. However there are various issues with all of the published measures above and no perfect measure to deal with all eventualities will ever exist. It is proposed that RPI continues while a review of a better measure is carried out.

The direction applies for one year only (40). We would welcome some indication of when consultation will take place on rent policy for the future given the significance it has on our businesses.

Q5 (Q6 in the consultation document) Do you agree with the principle and detail of our proposed direction on quality of accommodation (decent homes)?

R5 We agree that the default standard should remain the decent homes standard.

Q6 (Q7 in the consultation document). Do you agree with the principle and detail of our proposed direction on tenant involvement?

R6 Housing associations are proud of the work we have done over many years engaging with residents and local community groups. This inevitably involves them in local capacity building amongst residents at an individual and a collective level. We do not however think it appropriate for a direction to set out in such detail the requirements of future standards. While associations will no doubt find it possible to achieve the objectives set out in the direction we do not agree with the principle of a centrally dictated outcome. To suggest that associations should set out to "ensure all social housing tenants have the confidence, skills and power to engage on housing-related neighbourhood issues goes well beyond what should be expected of providers. This ambition sits more easily with local authorities as strategic bodies and should be an issue for them and local providers (including ALMOS) to arrive at suitable arrangements.