Shoreline Housing Partnership Ltd.

Responding to the Government's July 2015 Budget

1 What is the Main Issue?

- In its emergency budget of 8th July 2015, the Government made a completely unexpected announcement requiring all social landlords (councils, 'ALMOs' and housing associations alike) to cut their rents by 1% per year in real terms, year-on-year, for four years from 2016 until 2020.

2 What are the Main Implications of this?

- This will cut an estimated £4.3 billion from the Housing Benefit bill over 5 years, contributing to the Government's commitment to reduce the size of the welfare bill.
- It will lead to a 13% reduction in the rents charged to social housing tenants over the period compared to what had been expected.
- It will require all social landlords to adjust their business plans by at least an equivalent amount in order to balance their books.

3 A Little Important Background on Social Landlord Rents

- Social rents are set according to a government formula which between 2002 and 2015 saw rents increase annually by a maximum of RPI +0.5%.
- In May 2014 the Government confirmed that a new ten year formula period would be put in place – from 2015 to 2025 – altering these limits to CPI + 1% per year.
- However only 4 months into these new arrangements in July 2015 this was scrapped.

4 What is the Financial Impact on Shoreline?

- As an independent company and charity Shoreline owns around 8,000 homes and is backed by an £82m bank loan facility secured against those homes on a thirty year basis.
- Around 98% of Shoreline's gross annual income of £31m comes from rents so any change in the rent formula has major impacts.
- The change in the rent formula has the effect of extracting £211.5m of income from the thirty year business plan.
- Each year Shoreline expends its income primarily on repairs & maintenance, investing in stock improvements, running costs (mainly staff costs managing the homes), interest on its loans, and for new housing development.
- With this major loss of income it must take corrective action now in order to ensure that it remains solvent in the long-term and can repay its bank loans in the future.
- To secure this future we have identified that we need to save a minimum of £3.5m per year (in today's terms) from our spending, representing around 15% of all our controllable annual expenditure.

4 So what is Shoreline's Plan?

- It is barely 8 weeks since the government's announcement and our Board of charitable trustees has taken a very preliminary view of how we could respond across seven initial areas for action:

    - Asset (stock) investment
    - Purchasing new homes
    - Building component replacements
    - Sharing services
    - Pension scheme membership
    - Employee terms & conditions
    - Service and organisational restructuring.

- We have commenced informal discussions with the workforce around these items and have posed two major questions to kick this off:

    1. In making savings should we either (a) seek to preserve as resilient a 'core' landlord service as we can at the expense of some of our discretionary services; or (b) try and preserve more of our discretionary services at the expense of core landlord services?
    2. To what extent can or should we try and mitigate the impact on services and jobs by cutting back on employee pay and terms?

- The Board has yet to make any decisions and go to consultation on these (see ***'What Next?'*** below) but to give an idea of how a plan could be made up we have worked an example for internal discussion where around 50% of the saving comes from limiting or ending some services; around 40% from associated reductions in staffing numbers (equivalent to around 50 posts); and around 10% from restricting pay.
- It is important to emphasise that these proportions could well change as we proceed through consultation and are illustrative only at this stage.

4 What Next?

- Along with all other housing associations we only now have until just before the end of October 2015 (7 weeks from now) to submit a fully revised financial plan to our regulator the Homes & Communities Agency to give them the assurance that we have re-aligned our expenditure to our new reduced income forecasts.
- Our Board meets towards the end of October to approve submission of this plan (which will focus on headlines not detail), and we will then go out to formal employee and public consultation on the detail that sits behind the plan.
- This consultation will last a minimum of 30 days, and the Board will then consider the consultation responses in December 2015 and only at that stage revise or confirm the final detailed content of the new plan.
- Subject to all the foregoing our target for implementing any changes would be April 2016.

Tony Bramley
Chief Executive
10th September 2015