

LEEDS FEDERATED HOUSING ASSOCIATION

MINUTES OF THE LEEDS FEDERATED HOUSING ASSOCIATION SPECIAL BOARD MEETING ON THE IMPLICATIONS OF THE RENT CAP dated 25th October 2022

Present:

Kim Brear (KB) - Chair
Claire Stone (CS)
Jaedon Green (JG)
Robin Machell (RM)
Steve Dungworth (SD)
Chris Simpson (CSi)
Rob Young (RY)
Martin Warhurst (MWa)
Innocent Moyo (IM)
Dedra Obeng Kwayke (DOK)

In attendance:

Kate Suggitt (minutes)
Matthew Walker (MW)
Stephen Blundell (SB)
Jason Ridley (JR)
Megan Henderson (MH)

Observing:

Shubash Miah (SM)

Item	Description	Action
1	Conflicts of Interest None	
2	Apologies None	
3	Special Board Finance Paper 22.135 JR introduced the paper, explaining there hasn't been any update on the rent cap but recognised that there has been a lot of political changes. There is likely be up to a 1% increase in the base rate in a bid to slow down inflation. Energy prices are still increasing and unemployment is low which contributes to inflation also. 22.136 He explained that once the Board have made a decision on which scenario to stress test, this will then come back to the November meeting and will also be used to set the business plan going forwards. 22.137 The three options are: i) Carry on as we are with operations as normal but the cost will be a reduced margin, would lose a couple of % points. However this would be the same across all organisations. We	

<p>22.144</p>	<p>are at a current starting point of a margin of 23% so losing a couple of points wouldn't be a disaster. Margins are high due to covenant requirements and are currently looking to change these so we can reduce margins without breaching covenants</p>	
<p>22.145</p>	<p>ii) Not reducing margins but significantly reducing investment in retrofit and customer facing activities which would all have implications</p> <p>iii) Take option 1 along with reducing development down to 55%. It's not catastrophic and would anticipate this would return to normal after a few years. Obviously rental and sales income would be impacted. Also have option to change s106 sale properties to rental properties</p> <p>22.138 The official inflation rate for September is 10.1% but the budget allowed for 11.5% so has given a small improvement of approximately £150k operating margin</p> <p>22.139 JR explained that the covenants requires us to deduct major repairs and improvements. The finance team have received the terms of the new offer which will be checked with a treasury advisor and approved next week before proceeding to the legal stage.</p> <p>22.140 Finally, JR commented that RoSH have noted the pressure on interest cover which confirms we are not in a unique position in regards to this situation.</p> <p>22.141 CS queried whether mortgages are still around for customers, JG confirmed lenders are still offering products, new applications are still available and any previous offers have to be honoured. Stress testing affordability however, has been affected which will affect some customers ability to get lending. CS Confirmed she is happy to support option one.</p> <p>22.142 MWa confirmed that he echoed a lot of CS's comments and thanked the finance team for the clarity of the position which shows the options really clearly. He feels LFHA are in a better position than many HA's but still feels concerned about a potential rent freeze that could be announced by the government. He is also fully supportive of the recommendation given</p> <p>22.143 JG queried if the Board decide to sign up to option1, are they also signing up to SO using full CPI. He is aware that larger organisations believe that this could be a reputational risk too far. JR responded to this and confirmed that the recommendation for SO has not been covered by the consultations</p> <p>22.144 JG also commented that development risks are increasing. As these costs are greater when developing ourselves, it would be prudent to look ahead and differentiate between bidding on schemes where the risks are lower and the schemes we develop ourselves. It</p>	

	<p>was agreed that this will be something to consider outside of the meeting</p> <p>22.145 CSi believe the Association is in a good position, he queried what would happen if the rent cap isn't at 5% and is held at zero, JR confirmed that the margins would drop a further 2% under that potential scenario</p> <p>22.146 MW has had recent conversations with colleagues from the regulators, DHULC and politicians. These conversations aren't around rent freezes but rent caps of 3, 5 and 7%. Ministers believe 5% is viable but that 3% will cause serious viability issues.</p> <p>22.147 Commercially Sensitive</p> <p>22.148 RY supports option 1 but feels it is worth looking at SO agreements if financially possible. KB agreed that we need to look at what is sensible around SO and the work this entails, SB confirmed that work can be done on the possible scenarios to come out of this.</p> <p>22.149 IM feels that it will be customers that face that difficulties ultimately, he supports option 1 but also feels we should communicate all the conversations with customers as we are all in this together and everyone should be included</p> <p>22.150 SD queried whether we need to look at different operating methods or mergers. He would also like to speak about the resident impact in more detail and what we are doing to mitigate the effect. MW confirmed that this will be considered at the February away weekend, not due to this specifically but just because it is the time for this to be reviewed again</p> <p>22.151 SB came back on IM and SD comments about residents and agreed that we need to put more effort into communications and letting them know how money will be invested and used.</p> <p>22.152 DOK supports option 1 but it is important to find the middle ground where impact on tenants is minimised as well as the impact on LFHA. She highlighted that if LFHA are losing money, then overall tenants will be losing out also as the support offered will decrease.</p> <p>22.153 Board reviewed the impact of the different rent caps on the business plan results. Based on an assumed 5% rent cap, Board considered the 3 options outlined and approved option 1 as the base-plan for stress testing and reporting to Board in November.</p> <p>22.154 Board gave management authorisation to determine what increase to apply to Shared ownership properties having taken into account the Board's discussion.</p>	
4	<p>Any other business None</p>	

5	Date of next meeting: 22 nd November 2022	
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