**Hexagon Housing Association**

**Board of Management**

**26 July 2016**

**Agenda item 4**

**Strategic matters in Housing Services**

**Lead Board member: Ian Mansell**

**Report by the Operations Director**

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| ***1.*** | ***Summary*** |
|  | The report sets out five strategic priorities for Housing Services during the year. |
| ***2.*** | ***Recommendations*** |
|  | To agree the strategic priorities for 2016/17 in sections 3.2 to 2.6 and in particular: * To endorse the approach taken to rent compliance in section 3.2 and note the progress made since the last report to the Board in March
* To note the latest position in 3.3 on the impact of changes in welfare benefits and the planned evaluation of the arrears monitoring tool, Rentsense in the autumn, and to decide if a report back should be made to the Board on the results
* To note that a report will come to the September Board with recommendations about exemptions from the VRTB. (3.4)
* To note the priority being given as set out in 3.5 to managing contractors’ performance in relation to estate services
* To note the position in 3.6 on the under recovery of service charges in general needs and our intention to make a policy change on abolishing the capping of service charge increases one of the budget decisions for the next financial year.
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| ***3.***  | ***2016/17 priorities***  |
| 3.1  | The strategic priorities for this year can be summarised as:* Putting right the rents which have not complied with the regulator’s rent setting regime and ensuring that the mistakes cannot happen again
* Maintaining Hexagon’s rental income and supporting residents to cope with the impact of welfare reforms and benefit cuts
* Preparing to offer the voluntary Right to Buy
* Continuing the drive to improve the quality and value for money of our estate services
* Continuing to focus on reducing the under-recovery of service costs

The first priority is newly identified for this year but the remaining four priorities were all in last year’s priorities list as well. This report is not based on the usual annual review produced by the manager of the service. We have not had a permanent manager since January so no report has been produced. Our new head of Housing, Stephen Lee, started on 11 July.  |
| *3.2*  | *Rent compliance*  |
| 3.2.1 | A report to the March Board summarised the findings of an investigation we had done into rents which were potentially non-compliant with the HCA’s rent standard. Most of the 95 incorrect rents were in Supported Housing but twelve were in General Needs. Since the March Board report was written, our Internal Auditors have carried out an audit (over two phases) into the investigations by management and have confirmed the findings. A number of changes to our practices have been put in place and new procedures written with further checks incorporated. The rent audit was reported to the Audit and Risk Committee on 11 July and is on the agenda for this meeting as the Audit and Risk Committee was inquorate. The Internal audit representative from Mazars at this meeting said that the audit had shown that the problem was not systemic as only a small number of tenancies had been affected.  |
| 3.2.2 | We had hoped to complete all the ameliorative actions to put matters right before writing to the regulator, the HCA, to explain the extent of the non-compliance found but have not achieved this at the time of writing(15/07/2016). The calculations for the refunds due to tenants and Housing Benefit authorities took much longer than anticipated and were only completed on 15 July with the net rents reset and refunds due to be made to individual tenants in the week commencing 18 July. We are also awaiting confirmation from the two agencies managing 51 of the non-compliant homes that the net rents going forward have been reset to be compliant; this is expected imminently.  |
| 3.2.3  | A second audit has been done in late June following the main rent change process this year to ensure the process of rent setting is now sound and fully compliant with regulations. The results are awaited.  |
| 3.2.4  | There are 95 current tenants who have been charged a net rent which is above the level allowed by the method set out by the regulator. In 39 directly-managed cases, the tenants have actually been overcharged and refunds are due. The sums involved are set out in the table below.

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| --- | --- | --- |
|  | Total overcharges in £ to 30/06/16 | Value of Refunds in £ due to residents |
| Supported housing  | 54393 | 14292 |
| General Needs  | 13247 |  6042 |
| **Total**  | **67640** | **20334** |

The balance of the refunds is due to Housing Benefit authorities. One supported housing tenant is due a refund of £12015 but we understand that they received some Housing Benefit direct from the authority so they will need to inform the Housing Benefit authority of their refund. In 5 directly-managed cases, we added a legitimate charge to the net rent (thereby technically breaching the rent standard) rather than charging it as a service charge. The overall charges (rent and service charge) made in these cases would have been no different from what was charged but the balance between rent and service charge would have been different. No refunds are being made to the 5 directly-managed residents in this situation. **Agency managed non-compliant rents** Directors’ Group has discussed whether refunds should be made in relation to the tenancies of the 51 agency managed homes where the agency did not charge a compliant rent, and on balance has decided that although we did not administer the rent notification ourselves or receive the rent, as we failed to prevent non-compliant rents being charged by the agencies, we should offer to make refunds. This is to Southwark Housing Benefit authority that actually paid the rent except for one hostel resident who is paying from his own resources towards his rent where the refund would be £1518. The cost of making these refunds in relation to agency managed tenancies is estimated at **£118,632**.  |
| 3.2.5 | Once the letter to the HCA is sent, we will need to be prepared to respond to any requests for meetings, or further information queries made by the regulator. We will share the results of the audits and explain the changes to practices we have put in place. Staff have been briefed about the need to strictly comply with all rent setting procedures and extra checks have been put in place. Compliance will be monitored by management for the rest of the year to ensure that the changes are fully embedded.  |
| *3.3*  | *Maintaining our rental income and supporting residents with welfare changes*  |
| 3.3.1  | The welfare changes challenges for the year are primarily related to the introduction of Universal Credit and the reduction in the availability of discretionary support by local authorities for households affected by the “bedroom tax” and the forthcoming lower Benefit cap.  |
| 3.3.2 | **Universal credit introduction**  |
|  | Three years after the welfare reforms started, we are starting to see the first of our residents impacted by Universal Credit (UC) when they have a change of circumstances such as losing their job. There were on 30 June 42 residents affected of whom the vast majority, 37, are on the “digital” service in selected postcodes in Croydon and Southwark. The digital service covers all types of claims whereas the national “live” service is still only affecting single people with simple claims. The monthly UC payment covers the housing element of a claim so the resident has to make arrangements to pay us for the rent. UC is paid in arrears so we are seeing an increase in arrears for those who have moved onto the new combined benefit. For some residents who already have 2 months’ rent arrears at the point they claim UC, we can apply for an “alternative payment arrangement” (APA) so that we get paid the housing element direct by the Department for Work and Pensions (DWP). We have applied for 15 of these but only 6 have been agreed so far. The experience of other landlords who have had UC claimants for longer is that arrears do increase in the transitional period. We have notified residents in affected postcodes what to expect and our Housing officers and our Financial Inclusion Advisor are offering support to residents who need it (e.g. in applying for APAs). The numbers will grow during this year but the main roll out for existing claimants is not scheduled to start till 2017 and it is expected to take three years so the main impacts will be felt from next year onwards.  |
| 3.3.3 | **Benefit cap**  |
|  | The lowering of the benefit cap to £23000 from £26000 is planned to happen later this summer and we understand that the DWP has written in the last few weeks to households potentially affected. We are still awaiting notification from most boroughs with a list of our residents likely to be affected. As well as the newly affected cases, the reduction in the cap means that families already affected by the £26000 cap will be £3000 per year worse off. The Discretionary Housing Payments budget which was used to support those significantly affected by the first benefit cap will not be sufficient to provide the same level of support for this second wave of benefit cap affected households. The families affected by the Benefit cap will have much less income from which to pay their rent. The main action we can take to support them is to help them into employment and this is what we will be focussing on. |
| 3.3.4 | **Restricting HB on rent for the under 35s to the shared accommodation rate**  |
|  | This measure affects tenancies granted after 1 April this year but does not come into force until 2018. Nevertheless we are applying affordability tests to young applicants to our 1 bedroom homes to try to ensure we minimise the risk of these tenants not being able to pay their full rent in the future.  |
| 3.3.5 | **Restricting HB to the Local Housing Allowance (LHA) rate for all social housing**  |
|  | The main impact of this reform was going to be on Supported Housing but the Government has deferred the introduction in the Supported Housing sector for one year until it completes its review of Supported Housing. There is no immediate impact on us from this proposed measure against which we lobbied but the impact on viability of Supported Housing schemes will be devastating if the Government does not change course. Inside Housing reported on 8 July that the DWP has decided to extend the current exemption for Supported Housing but it is not yet clear whether this is just for a fixed period.  |
| 3.3.6 | **Maintaining our income in the light of these challenges**  |
|  | In addition to supporting residents with the transition to these changes in benefits, our priority has been to be as efficient as possible in our normal arrears work. We implemented in January some software called “Rentsense” to help us target the arrears cases which need reviewing at any one point in time based on the pattern of payment for individual tenants. We are due to carry out an evaluation in the early autumn, which could be reported to the Board.  |
| *3.4* | *Preparing to offer the voluntary Right to Buy (vRTB)* |
| 3.4.1 | The Right to Buy for housing association tenants was a Conservative party election manifesto in the May 2015 election. However, funding it has proved difficult so the implementation is going slowly. There were five vRTB pilots announced in the autumn budget and they have been underway for several months now. From the early evidence of the pilots and that of local authorities administering the RTB, it is clear that the risks of fraud are substantial and we have approached Phoenix Community Housing who have experience of the preserved RTB in their own stock to see if they could offer Hexagon a service for processing applications, thereby tapping into their considerable experience in spotting fraudulent applications. A proposal is expected from them in mid-July.  |
| 3.4.2 | The Government is allowing housing associations to exempt some properties from the vRTB; however, the expectation is that residents in these homes would be offered an alternative property. Some work will be done on possible exemptions ready for the September Board meeting.  |
| *3.5* | *Continuing the drive to improve the quality and value for money of our estate services*  |
| 3.5.1 | We have been implementing an Estate Services review action plan for the last year or so in order to try and drive up the standards of care and upkeep on our estates. We appointed a part-time officer on a fixed term contract to carry out a monitoring role of the contractors and following a review, this role was made permanent. We also went through an EU procurement process during the year which resulted in the appointment of a new contractor – Clean Green - for one of our two areas and the reappointment of our established contractor, Cleanscapes and Groundscapes, for the other area. These contracts are now underway but it is too early days to make a judgement on how well they are performing. Ensuring that these contractors as well as our new communal repairs contractor perform well is the main priority for the year on the estate services side.  |
| *3.6* | *Continuing to focus on reducing the under-recovery of service costs*  |
| 3.6.1 | The issue of under-recovery of service costs identified last year has continued to be problematical with an overall deficit on the General Needs service charge account of £221k in 2015/16. This resulted from the service charge income being lower than budgeted and the service charge costs being higher than budgeted. The service charges set in July 2015 were set lower in aggregate than the amount assumed in the budget; in order to address this problem, we have tried to match the budgeting for 2016/17 to align with the setting of the charges. On the cost side, the main reason for the overspending of £168k (18% above budget) in 15/16 was an overspend on communal repairs (£139k) equipment service contracts (£38k), and lift servicing (£27k) mitigated by underspends in some other areas. This overspend on communal repairs reflects the general overspend on responsive repairs, particularly towards the end of the year and this type of overspending is continuing in 2016/17 with a £113k overspend at the end of Quarter 1. These costs will not all have been reflected in the analysis of service chargeable expenditure up to the end of November 15 which feeds into the setting of the budget and charges for 16/17 so there will be a time-lag before the full effects of this higher level of spending are reflected in charges and therefore will start to be recovered.  |
| 3.6.2 | Nevertheless good progress has been made in sorting out some of the processes around service charges and costs accounting. The budget explicitly recognises that some service costs cannot be recovered from tenants because our policy does not allow certain costs to be passed on such as the servicing costs of lifts fitted in homes where a disabled person is living. The Finance team has been doing a lot of work on utility bills paid by direct debit to ensure the costs can be attributed to the right scheme in a timely manner. We also recruited a part-time finance assistant to help ensure the costs of services are properly recognised and accounted for. We also changed as part of the 16/17 budget our policy on capping the increase in a service charge for an individual home, increasing it from £3 per week to £5 per week. All these actions should contribute to a better recovery rate in future years. We will consider not applying any cap as part of next year’s budget decisions and this will be put to the Board for a decision. We could also consult our residents prior to making a decision on lifting the cap on service charge increases. The Supported Housing service charge account has not had the same problems as the general needs account returning an overall surplus of £85k in 2015/16 with income above budget and costs below.  |
| 3.6.3 | We report on the position on all the service charge accounts as part of the quarterly management accounts so the Board can track performance as we progress through the year.  |
| ***4.***  | ***Progress on 15/16 priorities***  |
| 4.1 | There is one other priority identified for last year which we have not carried forward, namely improving relet times for void properties.  |
| 4.2 | **Relet times**  |
| 4.2.1 | During 2015/16 the relet time for normal voids in General Needs reduced fairly consistently each month and for the year as a whole, the relet time was reduced from 40 to 34 days, still above our target of 28 days but a considerable improvement. The monitoring of voids is done on a spreadsheet used by Housing Services and the Repairs team and some improvements to the way voids could be monitored more dynamically were made by the Business Improvement team. The benefits of these improvements should be seen in 16/17. Although the properties being considered for disposal have had an adverse effect on our void loss and relet rates, disposals to support the development programme stopped in the autumn and so in the future, this problem should be minimised. The Board will be able to monitor progress on relet times and void losses through the usual quarterly reporting of performance information.  |
| 4.2.2 | The Board has already agreed as part of the strategic implications of the Care and Support annual review that the issue of minimising the financial losses as a result of voids in Supported Housing must remain a priority for 2016/17.  |