

REFERENCE:
ORGANISATION:
CATEGORY:

008
CLOCH HOUSING ASSOCIATION
REGISTERED SOCIAL LANDLORD



Ref: 008.
20 MAR 2008

Our Ref: MR/MC/HAG
**CLOCH HOUSING
ASSOCIATION LIMITED**

17 March 2008

Aileen Piacentini
Communities Scotland
Highlander House
58 Waterloo Street
Glasgow
G2 7DA

Dear Aileen

**BETTER VALUE FROM HOUSING ASSOCIATION
GRANT CHANGES TO GRANT FROM 2008/09**

I refer to the above and your letter dated 12 February 2008. The points of response for our Association are as follows:-

1. We are disappointed that such a tight timescale has been given to respond to proposed changes that will have such a radical impact on Association's ability to develop in the future. It is not a consultation since the timescales are too tight. There is no time for consultation with tenants or in-depth discussion with Committee Members, to look at the long term effects of the proposals. The consultation ends on 25 March 2008 but it is understood new proposals will be effective from 1 April 2008. It appears that decisions have already been taken and that responses will not influence the proposed changes.
2. Rents – RPI +1% can't be sustained over a long period for affordable rents. This will surely lead to unsustainably high rent levels over the long term.
3. The proposals are a cost cutting exercise which will have a negative effect on reserves for associations; which could eventually run out. To fund one of our present developments of 22 houses extra borrowing costs would be £1,100 per month which is £50 per housing unit. These would have to be funded by rental income

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Registered with Communities Scotland in the Register of Housing Associations No HEP91
Registered with the Financial Services Authority (No 1893 R (s))
A member of the Scottish Federation of Housing Associations
A recognised Scottish charity Reg. No. SC013996



Scottish Federation of
Housing Associations

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Aileen Piacentini

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which will have an adverse affect on affordability; or by reductions in costs and quality. For information this development was already subject to a major savings exercise. The new proposals would mean that this kind of development (in a key regeneration area) might not be possible in the future.

4. An increase in Private Finance requires further security. Associations will have to use unencumbered stock which will eventually run out; or does not exist with some associations.
5. Lenders are looking at different ways of valuing property because it will not stack up with these proposals. It will be a higher risk for the lenders which will be reflected in higher borrowing costs and interest levels. Indeed we are aware that some lenders are considering withdrawing from lending to Associations if these proposals are followed through..
6. Will financiers lend on this level of private Finance which only accrues a surplus towards the end of the loan and increases deficit in the early years? It is our understanding that the higher the lending risk , the higher the interest rate that will apply.
7. To freeze the Management, Maintenance and Major Repairs allowances is penalising Associations for aspects which are outwith their control; in particular construction and repair costs.
8. A large portion of the reserves built up by RSL's are designated reserves which are required to pay for future major repairs. It is unlikely that sufficient free reserves exist in Scotland to achieve the kind of savings being looked for.
9. In addition reserves may not be cash backed.
10. Funding new development from reserves is not financially sustainable and can only continue until those reserves no longer exist.

In conclusion diminishing reserves will reduce the financial strength of the

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sector, may lead to a perception of higher risk by funders and combined with the well publicised credit crunch is likely to lead to an increase in long term funding costs.

Yours sincerely

A handwritten signature in blue ink that reads "Murray Richardson". The signature is written in a cursive style with a large initial 'M'.

Murray Richardson
Director