

REFERENCE:

036

ORGANISATION:

DUNEDIN CANMORE HOUSING ASSOCIATION

CATEGORY:

REGISTERED SOCIAL LANDLORD

DUNEDIN CANMORE HOUSING ASSOCIATION LTD

RESPONSE TO CONSULTATION

BETTER VALUE FROM HAG – CHANGES TO GRANT IN 2008/09

Dunedin Canmore is the largest Edinburgh based housing association with around 4000 units in management and a development programme for 2007/08 of £13.5m. Dunedin Canmore leads the Rowan Group, which includes Prospect, Barony, Link, Margaret Blackwood, Manor Estates and Viewpoint – a wide range in size and specialisms. The Rowan Group is one of the Preferred Partners with the City of Edinburgh Council.

The Association has always taken the view that HAG should be minimised in order to maximise the efficiencies of the grant system and we therefore aim at 65% HAG on new build projects. To this end private borrowing has been maximised and rents and running costs optimised. We therefore agree with the general aims of the consultation that HAG must be used as efficiently as possible in order to increase the supply of housing.

We have contributed to the SFHA response, which we agree with, and therefore do not want to repeat all the same arguments, but would like to emphasise the following points:

Private Finance

It has always been critical to keep the confidence of the private lenders, who have perceived housing associations to be good clients. Unfortunately in this time of mortgage lending uncertainty, lenders are becoming stricter about lending criteria. The unfortunate demise of a large English housing association recently will have shaken the confidence of some lenders. It is therefore important that the Scottish Government pay especially careful attention to any comments made by the Council of Mortgage Lenders in relation to the proposed changes.

The interest rate assumption of 6% is based on a deferred mortgage, a type of mortgage which is risky and not normally available to housing associations. The Association's borrowing is currently 25 basis points over base, as we have tendered private finance. This gives a current rate of 5.5%, which is still higher than the deferred rate resulting from the assumptions in the consultation.

Inflation

The danger of assuming RPI plus 1 for rents, is that the rents will become unaffordable to people on low incomes. Social housing should not be the housing of last resort, and if rents are continually pushed up tenants will be caught in a benefit trap. Housing Benefit may pick up the costs in the short term, but the Department of Works & Pensions will not be willing to support an ever increasing Housing Benefit bill.

Management Costs

Freezing management allowances results in these bearing no relationship to the reality that management costs are increasing. As housing associations house more vulnerable and challenging tenants (eg through S5 referrals), and deal with the issues of support and anti social behaviour, management costs are increasing not decreasing.

In addition we have willingly taken on community and business initiatives, wider action, social enterprise and tenant participation, but these do result in increased overheads, which have to be paid from rents.

Maintenance Costs

We have always calculated whole life costings for our projects, and have now incorporated SHQS requirements. In addition, however, labour and material costs are increasing above RPI, and BCIS is a better indicator of maintenance cost increases.

It is not necessarily correct to say that new build is less expensive to maintain than older stock, as we are experiencing similar costs in all types of stock as we increasingly house more vulnerable and challenging tenants, with resultant increases in wear and tear on stock.

Cash Flow

The cumulative effect of the changes put forward in the consultation is to reduce HAG by approximately £10,000 to £12,000 per property. This could be perhaps sustained for about 5 years, but once the requirements of major repairs and cyclical repairs kick in from year 5, the association would quickly find itself in a cash flow deficit, which would have to be covered by borrowing on other projects or increasing rents. This is not good

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practice and would not be accepted by private
lenders.

Larger associations

Dunedin Canmore is one of the larger Scottish associations and we are already maximising our private finance. We would however be unable to keep our rents at affordable levels if this consultation is put into practice.

The larger associations, which have their HQs in England, may be willing to reduce HAG, but it is questionable how sustainable this will be if these organisations are also under pressure to minimise grants in England. The main attraction for these organisations to expand into Scotland in the first place was the relatively higher levels of grant.

Standards

We are very concerned that the pressure to increase rents and reduce HAG will lead to compromises on standards, such as build quality, varying needs, sustainability and low maintenance specifications. There is a high need for specialist housing, eg sheltered housing for the elderly in Edinburgh, but this requires additional grants to cover the communal facilities. It is important that we don't repeat the mistakes of the 1960s and 1970s with large numbers of poorly built properties, which were then not properly maintained. Housing Associations have always maintained good standards for their tenants, and private lenders expect the assets not to be devalued.

Other options

We will continue to maximise the efficiencies of new build to minimise HAG and to increase the output of housing. Other options which should be considered include:

Land - In Edinburgh it is currently costing over £50,000 per unit to purchase land. It is therefore impossible for associations to compete with private developers. The Affordable Housing Policy is helping to a certain extent, but the outputs are very dependent on the private developers and their development programmes. If land owned by the Councils could be transferred at nil value then this would help to reduce the HAG levels.

Mid Rent –grants of up to 40% would enable rents to be set at affordable levels for people on

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incomes up to £32,000. The Scottish Government is currently investigating how mid rent could be expanded, and we would encourage that to be concluded as quickly as possible.

Shared Equity and Shared Ownership – again grants of up to 40% would reduce HAG levels.

Social Enterprise – there may be opportunities to set up income generating facilities on some projects, which help to subsidise the ongoing running costs.

Conclusion

Please read the above comments in conjunction with the SFHA response. We urge the Scottish Government to take into account all the responses received to this consultation, but in particular to pay special attention to any comments made by the private lenders, whose confidence in the sector is crucial to achieving the Scottish Government's requirement for increased output.

For further information or clarification please contact:

Susan Napier

Business Development Director, Dunedin Canmore Housing Association Ltd

T: 0131 624 5601

E: Susan.napier@dunedincanmore.org.uk