

REFERENCE:
ORGANISATION:
CATEGORY:

010
AYR HOUSING ASSOCIATION
REGISTERED SOCIAL LANDLORD

Ayrshire Housing - Consultation Response to "Better Value from Housing Association Grant"



Response to Communities Scotland consultation:

"Better value from Housing Association Grant"

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Context

We are a housing association with a stock of 1,200 houses in Ayrshire and an active development programme. This extends from small-scale schemes which sensitively meet village needs to major regeneration projects. We are committed to building on our traditional areas of work to the benefit of Ayrshire's communities. Through our partner, Ayrshire Initiatives, we have developed an innovative range of personal support, community engagement and training projects. Our governance structure is based on a partnership between our tenants, the communities and South Ayrshire Council with equal numbers of Board members drawn from each category. Each year, there are contested elections to the Board, which is a mark of the strength of our relationships with our tenants and the wider community.

We offer the following comments in response to the proposed changes to the HAG assumptions and allowances.

Paragraph 5 - we believe introducing competition for subsidy may lead to decisions being made which may have a detrimental effect on the medium to long term financial viability of organisations.

Paragraph 6 - in this section a great deal of emphasis is placed on the level of cash balances held by RSL's and interest cover levels. It should be noted that the 110% threshold quoted for interest cover is the lowest lenders would comfortably like to see and their view on margins will undoubtedly alter if the current levels of interest cover erode over time. Additionally, the requirement to repay the capital element out of cash generated is ignored in the paper. The cash balances have been generated to create reserves to meet future maintenance obligations and the figures quoted provide the cash backing for reserves designated for such expenditure.

Thus the 'significant financial strength in the sector' is a result of prudent financial planning for the longer term, which the regulator expects organisations to carry out in order to demonstrate that tenants can remain in well-maintained homes. A fundamental of our business plan is to ensure that we have sufficient cash to enable these repairs to be afforded from within the parameter of annual rent increases being as close to RPI as possible. Our existing plan assumes a reduction to RPI only increases within the next 10 years.

Paragraph 8 - It is of significant concern to us that rents will be assumed to rise by 1% over RPI for the full 30-year period. As stated above, the objective of our Board is to reach RPI only increases as soon as is possible. As 30 years is a long time, it remains to be seen if such increases are sustainable in terms of Housing Benefit payments and affordability issues generally. Housing Benefit is not a devolved matter for the Scottish

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Government to deal with, therefore what guarantees are available that housing organisations will not at some future point be pressed to limit increases to say, RPI + 0.5% as has happened in England and Wales?

Paragraph 10 - the current assumption for void levels makes no allowance for bad debts, which are very real costs to organisations such as ours. Our average void loss is around 1% as quoted but we also incur significant losses due to bad debts relating mainly to former tenant rent arrears. Again, over a 30-year period it is difficult to say whether an assumed void loss of 1% is reasonable, especially as the stock will age and potentially become more difficult to let. It will be interesting to hear the views of the lenders as they take a long-term view of each project.

Paragraph 15 - We believe that the assumption to freeze the allowances at 2007/8 levels is unrealistic. Staffing costs tend to rise above inflation in the long term which impacts directly on the operating costs of our organisations and indirectly through contractor costs, particularly for planned and reactive repairs. It is concerning that such an optimistic view is being taken based on the notion that organisations such as ours are exposed only to average RPI increases.

Conclusions

- How realistic are the proposed changes to the assumptions and where is the margin of comfort in the ability to service the debt that lenders like to see? This is one of the factors implicit in the statement that the sector is low risk and worthy of the very low lending margins that have been available.
- There is evidence that cost growth is already exceeding rental growth in our sector, thereby undermining the proposed assumptions.
- Increased loan funding and financial gearing will lead to increased funding costs as lenders modify their view of the sector.
- Funding currently in place has been agreed on the strength of assumptions over 30 years and there needs to be some assurance that these will remain achievable. There seems unlikely to be any room for slippage with existing tenants potentially having to subsidise those tenants in properties funded under these proposals.