

Blairtummock Housing Association

Response to Scottish Government Policy Proposals

Better Value From Housing Association Grant (HAG)

Aim of the Consultation Paper

The aim of this consultation paper is to get views on a number of changes that the Scottish Government aim to introduce in relation to the calculation of HAG for housing development.

Proposals

There are a number of proposals set out in the paper which allege that the present formula for the calculation of HAG is out of line with the realities of the financial environment housing associations work in

1. Rent inflation is currently being underestimated and is proposed to be increased to inflation +1% - in line with most HA projections.
2. Void losses in rent to associations are being overestimated and will be reduced to 1% from 2% - in line with most HA projections.
3. General Inflation is currently being underestimated and will rise to 3% from 2.5%.
4. Management & Maintenance allowances are purported to be too generous and will be frozen @ 2007/08 levels. This is out of line with information collected in APSRs. In the case of new build housing the actual costs of M&M are lower in any case.

Other Points from the Paper

It is suggested that associations might use reserves or increased levels of private finance to subsidise development and reduce the burden on the HAG budget by delivering the same number of new homes for a smaller % of grant. This point is justified as follows:

- Surpluses held by HAs are very high it is projected that these are likely to increase as a % of turnover from 8.9% (2006/07) to 11.4% (2012).
- Many HAs have more than the minimum 110% of interest cover required to demonstrate viability with some holding in excess of 140%.

Suggested Response

It is suggested that we respond to each of the points in turn – as follows

1. Rent inflation: We are concerned that by using the *mean* average to make this point that rent inflation may be being exaggerated by taking into account organisations with particularly high increases
2. Void losses: The use of the *median* average to support reductions in Void Loss assumptions does not take into account the organisations who are working in particularly challenging areas and therefore may experience much higher rent loss through voids. Whilst most voids are around average in terms of the rent loss, some have been particularly difficult due to factors such as difficult to let flats, high levels of anti-social behaviour in certain closes and difficulties in sustaining tenancies for vulnerable individuals housed through section 5 homeless referrals. In one instance the HA experienced a 90 day rent loss amounting to a cash loss of some £529.
3. General Inflation: The increased level of general inflation to be assumed would suggest that the HA has a larger income over the 30 year period. It is unlikely that the high level of inflation being used would persist over the period and therefore income will be overestimated leading to larger borrowing which may not be sustainable.
4. Management & Maintenance: M&M Allowances are currently felt to be too low to meet the costs involved in management of homes, it can cost more to manage housing in more deprived communities. The notion that new build homes cost less to manage is flawed as we are talking about managing and maintaining the property for a long period of time and as such more maintenance will be required as a property reaches the end of the lifespan. Government has increasingly asked that HAs take on new responsibilities that were not envisaged when the mixed funding regime first came into use. Increased costs are being experienced by a number of Glasgow organisations where a large number of Section 5 homeless referrals are being housed and work around Anti-Social behaviour legislation has to be resourced.

In terms of further increases to private borrowing or to the use of reserves to finance housing development many examples of organisations in England who have gone down this route and this has been perceived to be a short term success in producing lower HAG levels . However, the sustainability of these organisations has been put at risk and in many of the mergers that have been entered into this over reliance on the use of reserves in new housing development has been seen to be a destabilising factor.

Report By:

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Date:

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