

We're Housing Scotland

Ask for: Stevie Nugent
Our ref: N/DEV/CS

North
Glasgow HA

10 March 2008

Aileen Piacentini
HAG Consultation 2008
Communities Scotland
Highlander House
58 Waterloo Street
Glasgow
G2 7DA

Dear Colleague,

Better Value from Housing Association Grant: Changes to Grant from 2008/09

Thank you for the recent short paper setting out Communities Scotland's proposed changes to HAG assumptions and allowances from April 2008. North Glasgow Housing Association has carefully noted the proposed changes and after due consideration can now respond as follows:-

Rents

In order to maximise the scope of our own private borrowing, North Glasgow HA currently assumes that average rents will rise annually by 1% in real terms. This enables us to meet onerous site develop costs without increasing the burden on Housing Association Grant which is already highly pressured.

Therefore, your proposed assumption that average rents will rise annually by 1% in real terms is consistent with our own current approach.

Voids

Your proposal to reduce the void assumption from 2% to 1% based on the current median performance of the sector seems valid. We would be happy to accept the proposed reduction provided that this indicator continues to be monitored, with the Void Assumption being further adjusted in future years (up as well as down) if so required.

Private Finance

Given the present uncertainties within capital markets, your proposal to freeze the cost of borrowing at 6% from April 2008 would appear prudent and sensible.

Inflation

Your proposal that the Inflation Assumption should increase from 2.5% to 3.0% so that it fits more consistently with actual inflation again seems sensible. Again, this indicator should continue to be monitored and adjusted in future years if so required.

Management, Maintenance and Major Repairs

Your statement that "new stock being funded by HAG ought to be less expensive to manage and maintain," is open to interpretation. Certainly in terms of their external envelope and environmental works, new housing stock should benefit from reduced maintenance. However, internal components such as heating systems, electrical and water services, kitchens, bathrooms, windows etc, do not last longer or require less management or maintenance simply because they are housed within a modern superstructure.



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North Glasgow Housing Association Ltd. Reg Office: 50 Reidhouse Street, Springburn, Glasgow G21 4LS

Tel: 0141 560 6000 **Fax:** 0141 560 6005 **Email:** info@northglasgowha.com **Web:** www.northglasgowha.com

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Also, given that a number of RSLs are tailoring their designs to meet new Ecohomes standards and the constantly evolving Sustainability and Environmental agenda, a higher proportion of fairly new and (as yet untested in the longer term) technologies are being incorporated into designs, bringing with them different kinds of (future) management and maintenance burdens.

If the RSL sector is to remain robust over the longer term, management and maintenance allowances must be structured in a way that does not prejudice future investment in the stock.

The situation is further complicated by the volatile market place where currently maintenance and refurbishment tender prices are consistently above the general rate of inflation. (The BCIS Public Housing Maintenance Output costs indicate a 21% increase in tender price over the previous five years against an increase in general inflation of 19%)

Therefore, we would suggest that while freezing the current management, maintenance and major repairs allowances at 2007/08 levels might not cause any real harm in the short-term, a continued freeze over a sustained period of time would be counter-productive and harmful and should be resisted.

Review of Allowances and Assumptions

Your review of allowances and assumptions takes into account the current financial strength of the sector as a whole and assumes that interest cover will remain comfortably above the minimum requirement of the Regulator and that net surpluses as a percentage of turnover will continue to rise during the next five years.


In our particular case, as we continue meeting our (Carron and Balornock) stock transfer investment obligations and drive towards achieving the Scottish Housing Quality Standard across the whole stock base by 2015, our budget predictions for the next five years assume that our interest cover will align more closely with the regulator's minimum requirements and that net surpluses as a percentage of turnover will fall sharply. (we suspect that many other RSLs might find themselves in similar circumstances)

While the proposed changes to the HAG Allowances and Assumptions might appear fairly modest at this time, given our preceding comments, we would urge caution and suggest that any future adjustment of the Allowances and Assumptions needs to be carefully thought out and delivered in a way that does not prejudice future investment.

Finally, North Glasgow HA is committed to increasing the supply of new social housing and ensuring that HAG is used as effectively as possible and as such, we have already adopted some of your proposed changes so that we can borrow and invest as fully as possible without compromising our long-term financial sustainability. Therefore, the proposed changes (in the short term) do not present us with any particular concerns provided that the longer term effects are thought through and prudently managed. However, given the onerous site development conditions that we encounter and that alternative funds for brownfield site development have all but dried up, and also taking into account increasing Landfill Tax burdens and increased Water infrastructure costs, it is our belief that in North Glasgow, the positive effects of the proposed changes to the HAG Allowances and Assumptions will be fairly minimal and until such times as alternative funding streams are made available to tackle abnormal site development costs, Housing Association Grant and Private Finance will continue to be severely pressured with the effect that there will be very little (extra) growth in the supply of new social housing.

We thank you for the opportunity to participate in this consultation and hope that you find our comments useful. In the meantime, please do not hesitate to contact Stephen Nugent, Regeneration Co-ordinator on telephone number 0141 560 6000 if you require anything further.

Yours sincerely



Pat Kenna
Chairperson