

**COMMUNITIES SCOTLAND CONSULTATION  
BETTER VALUE FROM HOUSING ASSOCIATION GRANT  
CHANGES TO GRANT FROM 2008**

**RESPONSE ON BEHALF OF  
MARYHILL HOUSING ASSOCIATION LIMITED**

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**1.0 INTRODUCTION**

- 1.1 Maryhill Housing Association is pleased to be given an opportunity to respond to the proposed changes outlined in the above Communities Scotland consultation "*Better Value From Housing Association Grant from 2008*"
- 1.2 The appraisal assumptions have traditionally been reviewed annually, but there are radical proposals this time around. This ties in with the Scottish Government's discussion paper *Firm Foundations: The Future of Housing in Scotland*. The Government's conclusion being that new housing must be procured more efficiently than at present with the proposal to introduce competition into the process of allocating investment from 2009. In the interim the Government wish to see a reduction in the cost of subsidy per house.
- 1.3 Maryhill Housing Association's overall interpretation of the proposals is that for any given scheme, the level of private finance will increase, compared to current calculations, and the grant subsidy in the form of HAG will reduce. This is exactly the intention behind the proposed review, however, Maryhill Housing Association has several concerns regarding the impact of such changes for our organisation.

**2.0 CURRENT SYSTEM**

- 2.1 The HAG funding for a development scheme is based on an assessment of how much of a loan can be raised using the rental income that the scheme will generate.
- 2.2 The grant requirement is worked out by taking the total scheme costs, deducting the private loan that can be raised, leaving a figure which is the HAG funding that an Association will seek.
- 2.3 As part of the calculation, the Association initially looks at the gross rent- the maximum total rent that the scheme can bring in its first year. This is a simple calculation- an addition of all the rents for the properties in the scheme.
- 2.4 However, it is acknowledged by the funders that the Association will not, in reality, be able to use that maximum figure to fund the loan. The funders therefore allow the Association to 'skim off' some of the rental income to allow for void loss, management of the properties, day-to-day maintenance of the properties and long-term maintenance of the properties. The Association does not submit it's actual costs in relation to these items when calculating the 'net rent': as noted above, standardised allowances as published annually which the Association must use when assessing the HAG requirements of a scheme.

- 2.5 Once the 'net rental income' is established, it is then multiplied by a private finance factor- again, a figure, which is published annually- to establish the private loan that the Association will be expected to raise towards the cost of the development.
- 2.6 The process that is currently in operation remains the same. However, the proposed assumptions allow the Association to make fewer deductions when working out the net rent, which ultimately leads to a higher private loan- and a commensurate reduction in HAG.
- 2.7 Detailed in Appendix 1 are the current assumptions, the proposed assumptions and the effect on that the proposals will have.
- 2.8 To illustrate the point further, Appendix 2 gives a worked example of the balance between HAG and private finance that would be required at the Association's Parkhill Phase 5 under both systems. As can be seen, the effect of the changes in assumptions would lead to a significant drop in HAG and increase in private finance.

### 3.0 **SUMMARY OF THE EFFECTS AND IMPLICATIONS OF THE PROPOSED CHANGES**

- 3.1 Overall, HAG/Private finance (PF) ratio will change and in the case of the Phase 5 example, the change is a reduction from 77:23 to around 71:29.
- 3.2 This will enable a 20% increase in new build housing without any increase in grant.
- 3.3 At the current levels of private finance many RSLs are already having difficulty with security valuations on an existing use basis not matching the levels of private finance required. Some are using valuations such as "existing use with sales" and "market value tenanted" to access private finance. This indicates that the level of private finance required exceeds the value of these properties when used for social renting. The increase in private finance generated by the proposed changes can only exacerbate the situation.
- 3.4 It is also likely that funders will perceive these investments as higher risk with higher gearing and combined with the widely discussed credit crunch may to lead to higher lenders margins and increases in funding costs.
- 3.5 This is likely to consolidate grant-funded development with large, resource rich developers who can do one or more of the following:
- fund development from their own reserves
  - use other existing stock as collateral for loans on new developments
  - cross subsidise new-build with rent from other properties.

### 4.0 **CONCLUSIONS AND RECOMMENDATIONS**

- 4.1 The above report outlines the Association's main concerns in response to the consultation document and the effect of the proposed changes.
- 4.2 The Association gives permission for this response to the consultation to be made publicly available. The required Respondent Information Form (RIF) is attached.

**Donna Birrell, Development Manager**  
**For and on the behalf of Maryhill Housing Association**  
**March 2008**

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**Appendix 1: Effect of proposed changes to HAG financial appraisal**

Heading	Current assumptions	Proposed assumptions	Effect of the change	notes
Rent increase	It is currently assumed that rents rise in line with inflation	It will be assumed for future schemes that rents will rise at RPI + 1%	It will be assumed that the Association has a higher level of income and therefore increased capacity to borrow  <i>(increased private loan/ reduced HAG)</i>	
Void loss	It is currently assumed that voids run at 2%	It will be assumed for future schemes that voids will run at 1%	A smaller amount can be taken off the 'gross rent' to calculate the 'net rent'. It will be assumed that the Association has a higher level of income and therefore increased capacity to borrow  <i>(increased private loan/ reduced HAG)</i>	
Management and maintenance allowances	It is currently assumed that the cost of managing the stock on a day-to-day basis, for an Association the size of MHA, is £783 per year. When the financial appraisal is carried out however, the Association is allowed to inflate this by 2.5% per annum, to reflect costs when the scheme comes off site. This would therefore equate to £781	Management and maintenance allowances are to be frozen at the current rate with no uplifts. For an Association the size of MHA, is £783 per year.	A smaller amount can be taken off the 'gross rent' to calculate the 'net rent'. It will be assumed that the Association has a higher level of income and therefore increased capacity to borrow  <i>(increased private loan/ reduced HAG)</i>	For management and maintenance allowances, a sliding scale exists, as it is acknowledged that larger organisations should, theoretically, be able to more efficiently manage and maintain stock as a result of economies of scale. For the purposes of this example, the figures relevant to MHA size of stock is used.

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Heading	Current assumptions	Proposed assumptions	Effect of the change	notes
Major repairs	It is currently assumed that the amount required to be put aside for future major repairs is £510	Major repairs allowance is to be frozen at the current rate of £510 with no uplifts.	A smaller amount can be taken off the 'gross rent' to calculate the 'net rent'. It will be assumed that the Association has a higher level of income and therefore increased capacity to borrow. It also means that in the longer term the sinking fund for Major Repairs is reduced in real terms  <i>(increased private loan/ reduced HAG)</i>	
Private finance multiplier	It is currently assumed that, based on long term interest rates and in-built inflation adjustments, the net rent figure should be multiplied by 18.16392 to give to total loan that can be raised.	It is proposed to change long term interest rates and in-built inflation adjustments, leading to a figure of 21.76458 as a multiplier which has to be applied to the net rental income	The multiplier has increased  <i>(increased private loan/ reduced HAG)</i>	This was not explicitly given in the consultation paper but has been established by SFHA in the interim

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**Comparison: old system versus new system  
 Parkhill Phase 5**

	current	notes	proposed	notes
gross rental income	£168,779.00		£168,779.00	
voids	£3,375.58	2%	£1,687.79	1%
Management and Maintenance Allowance	£783.00		£783.00	
mgt +2.5%	£802.58		n/a	
plus a further 2.5%	£822.64		n/a	
x 52 units	£42,777.25		£40,716.00	
major repairs	£510.00		£510.00	
x 52 units	£26,520.00		£26,520.00	
gross rental income	£168,779.00		£168,779.00	
total of deductions	£72,672.83		£68,923.79	
net rental income	£96,106.17		£99,855.21	
multiplier	18.1639		21.7646	
Private finance	£1,745,662.91		£2,173,306.71	

Difference= £427,643.80

On the basis of total scheme costs of £7,544,736 the change in ratio between private finance and HAG would be as follows:

total scheme costs	£7,544,736.00	£7,544,736.00
Private finance £	£1,745,662.91	£2,173,306.71
HAG £	£5,799,073.09	£5,371,429.29
Private finance %	23.14%	28.81%
HAG %	76.86%	71.19%

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