

## HAG Financial Appraisal 2008-9

### Response to Consultation

Loreburn has considered the document published by Communities Scotland entitled "Better value from housing association grant, changes to grant from 2008/09". We would like to comment as follows:

1. Every proposed amendment is making the net rental income higher, thereby increasing the proportion of private finance and decreasing the amount of HAG.
  - increasing rents over RPI by 1%
  - reducing the voids percentage from 2% to 1%
  - freezing the management allowance
  - freezing the maintenance allowance
  - freezing the major repairs allowance, which is already capped
  - increasing the inflation rate from 2.5% to 3%
2. This model does not take into account economic reality.
  - the average void level for all RSLs for 2006/7 was 1.9%
  - costs increase annually
  - maintenance costs increase at a rate above inflation
3. No allowance has been made for bad debts, so income is being overstated.
4. Increasing the private finance contribution will have an effect on the financial covenants, such as asset cover and interest cover. This could have an adverse effect on the perception of the sector in the market place. This also increases the risk to the Association.
5. Under the proposed amendments the private finance required is likely to exceed the valuations prepared for the lenders. This will lead to a shortfall which has to be financed by the Association. Contributing to development costs from reserves is not sustainable in the long term. The generation of surpluses is of course essential in the long term to maintain the stock and meet our SHQS obligations. Is the government advocating that we build housing stock that we cannot maintain?
6. Loreburn does have some cash reserves, but in line with other RSLs these are required to meet the obligations of the SHQS. Our 30 year cash flow shows that we can meet the SHQS, but this requires expenditure from our reserves.

- 7 The proposed new allowances mean that the schemes are not financially viable funded from HAG and private finance alone. Please see attached as Appendix 1 an example project appraisal we have provided for one of our recent new build schemes. It is prepared on the basis of proposed HAG levels and shows a positive NPV at year 49. In order to maintain the original profile of the NPV becoming positive in year 24 rents would have to be increased by RPI + 2.5% p.a.
- 8 Scottish rents are substantially lower than rents charged by English RSLs. In order to make future developments stack up it will be necessary to increase rents in Scotland. As English developers are likely to take on projects in Scotland we need to ensure that the Scottish RSLs are not going to be priced out by their lower rents.
9. It is evident that the assumptions are unrealistic and that they are understating costs and overstating income. If the proposed Scottish Government assumptions are used to appraise a project the NPV does not show positive until Year 28. (Appendix 2)
10. No account has been taken of the current uncertainty in the financial markets and whether there is going to be a knock on effect of the credit crunch, such as an increase in the lending fees, which have to be covered by the interest rate allowances. Also whether there will be an adverse effect on the availability of private finance.
11. The paper does not address issues such as geographic spread of units, rural build costs and the size of the prospective developments.
12. There appears to be a fundamental dichotomy between the vision outlined in Firm Foundations and the proposals put forward in the HAG appraisal 2008/9 paper. The Firm Foundations vision includes:
  - An increased supply of housing across all tenures, all of which is delivered on the basis of higher environmental and design standards
  - Housing developments that contribute to the creation of sustainable, mixed communities

These results come at a cost, and it appears that by going down the route of:

- Social housing that provides better value for public expenditure

RSLs are expected to spend their cash reserves on fulfilling the aspirations of the Scottish Government.

REFERENCE:  
ORGANISATION:  
CATEGORY:

001  
LOREBURN HOUSING ASSOCIATION  
REGISTERED SOCIAL LANDLORD

13. To achieve best value from housing association grant is important, however, it is not just down to the cheapest option. To achieve the objectives of Firm Foundations future decisions can not be based on costs alone. To cut back on the available HAG is to pave the way for super developers to take over the Scottish social housing provision. They may provide the numbers, but wherein lies the value to the local economy and future sustainable communities?
14. The timing of this consultation period on the Better Value from Housing Association Grant, Changes to grant in 2008/09, which closes on 25 March 2008, does beg the question of how much it actually is a consultation at all.

Reference: 001 (appendix one)  
 Organisation: Loreburn Housing Association  
 Category: Registered Social Landlord

**Loreburn Housing Association  
 Proposed 2008/9 Assumptions**

\*\*\* Discounted Cashflow including VAT and inflation\*\*\*

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
<b>INCOME</b>																
<b>Rental Income</b>																
Main Stock	25,139	78,913	110,096	115,200	120,540	126,129	131,976	138,094	144,497	151,195	158,205	165,539	173,214	181,244	189,646	198,438
Less : Voids & Bad Debts	-754	-2,367	-3,303	-3,456	-3,616	-3,784	-3,959	-4,143	-4,335	-4,536	-4,746	-4,966	-5,196	-5,437	-5,689	-5,953
<b>Total Rental Income</b>	<b>24,385</b>	<b>76,546</b>	<b>106,793</b>	<b>111,744</b>	<b>116,924</b>	<b>122,345</b>	<b>128,017</b>	<b>133,952</b>	<b>140,162</b>	<b>146,660</b>	<b>153,459</b>	<b>160,573</b>	<b>168,017</b>	<b>175,806</b>	<b>183,957</b>	<b>192,485</b>
<b>Other Income</b>																
Development Allowances	0	27,679	4,884	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL INCOME</b>	<b>24,385</b>	<b>104,225</b>	<b>111,677</b>	<b>111,744</b>	<b>116,924</b>	<b>122,345</b>	<b>128,017</b>	<b>133,952</b>	<b>140,162</b>	<b>146,660</b>	<b>153,459</b>	<b>160,573</b>	<b>168,017</b>	<b>175,806</b>	<b>183,957</b>	<b>192,485</b>
<b>EXPENDITURE</b>																
Responsive Repairs & Cyclical and major repairs	2,753 533	8,753 1,693	12,371 2,393	13,113 2,537	13,900 23,179	14,734 2,850	15,618 3,021	16,555 3,203	17,548 3,395	18,601 36,087	19,717 3,815	20,900 4,043	22,154 4,286	23,484 4,543	24,893 379,289	26,386 5,105
Other Direct Costs	383	1,189	1,642	1,701	1,763	1,826	1,892	1,960	2,030	2,103	2,179	2,258	2,339	2,423	2,510	2,601
Management & Administration	4,538	14,103	19,480	20,182	20,908	21,661	22,441	23,248	24,085	24,953	25,851	26,781	27,746	28,744	29,779	30,851
<b>Other Costs</b>																
Direct Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of raising pf	2,400	0														
Development Costs	0	0	1,331,056	101,174												
<b>TOTAL EXPENDITURE</b>	<b>10,605</b>	<b>25,738</b>	<b>1,366,942</b>	<b>138,707</b>	<b>59,750</b>	<b>41,071</b>	<b>42,972</b>	<b>44,966</b>	<b>47,059</b>	<b>81,744</b>	<b>51,562</b>	<b>53,983</b>	<b>56,525</b>	<b>59,194</b>	<b>436,471</b>	<b>64,943</b>
<b>NET SURPLUS / DEFICIT IN THE YEAR</b>	<b>13,780</b>	<b>78,487</b>	<b>-1,255,265</b>	<b>-26,963</b>	<b>57,175</b>	<b>81,274</b>	<b>85,045</b>	<b>88,986</b>	<b>93,103</b>	<b>64,915</b>	<b>101,897</b>	<b>106,590</b>	<b>111,492</b>	<b>116,612</b>	<b>-252,514</b>	<b>127,542</b>
<b>CUMULATIVE SURPLUS / DEFICIT</b>	<b>13,780</b>	<b>92,267</b>	<b>-1,162,998</b>	<b>-1,189,961</b>	<b>-1,132,787</b>	<b>-1,051,513</b>	<b>-966,468</b>	<b>-877,482</b>	<b>-784,379</b>	<b>-719,464</b>	<b>-617,567</b>	<b>-510,977</b>	<b>-399,484</b>	<b>-282,872</b>	<b>-535,387</b>	<b>-407,844</b>
<b>DISCOUNTING</b>																
<b>Discount Rate</b>	<b>0.97</b>	<b>0.90</b>	<b>0.84</b>	<b>0.79</b>	<b>0.74</b>	<b>0.69</b>	<b>0.64</b>	<b>0.60</b>	<b>0.56</b>	<b>0.53</b>	<b>0.49</b>	<b>0.46</b>	<b>0.43</b>	<b>0.40</b>	<b>0.37</b>	<b>0.35</b>
<b>DISCOUNTED SURPLUS / DEFICIT IN YEAR</b>	<b>13,321</b>	<b>70,912</b>	<b>-1,059,927</b>	<b>-21,278</b>	<b>42,167</b>	<b>56,020</b>	<b>54,784</b>	<b>53,572</b>	<b>52,384</b>	<b>34,135</b>	<b>50,076</b>	<b>48,956</b>	<b>47,857</b>	<b>46,780</b>	<b>-94,672</b>	<b>44,690</b>
<b>CUMULATIVE DISCOUNTED SURPLUS / DE</b>	<b>13,321</b>	<b>84,234</b>	<b>-975,693</b>	<b>-996,971</b>	<b>-954,804</b>	<b>-898,784</b>	<b>-844,000</b>	<b>-790,427</b>	<b>-738,043</b>	<b>-703,908</b>	<b>-653,832</b>	<b>-604,876</b>	<b>-557,019</b>	<b>-510,239</b>	<b>-604,910</b>	<b>-560,221</b>

Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Year 31	Year 32	Year 33	Year 34	Year 35	Year 36	Year 37
207,638	217,264	227,336	237,876	248,904	260,443	272,517	285,151	298,370	312,203	326,676	341,821	357,668	374,249	391,600	409,754	428,750	448,627	469,426	491,188	513,960
-6,229	-6,518	-6,820	-7,136	-7,467	-7,813	-8,176	-8,555	-8,951	-9,366	-9,800	-10,255	-10,730	-11,227	-11,748	-12,293	-12,863	-13,459	-14,083	-14,736	-15,419
201,409	210,746	220,516	230,739	241,436	252,629	264,341	276,596	289,419	302,837	316,876	331,566	346,938	363,022	379,852	397,462	415,888	435,168	455,343	476,453	498,541
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
201,409	210,746	220,516	230,739	241,436	252,629	264,341	276,596	289,419	302,837	316,876	331,566	346,938	363,022	379,852	397,462	415,888	435,168	455,343	476,453	498,541
27,969	29,647	31,426	33,312	35,311	37,429	39,675	42,055	44,579	47,253	50,089	53,094	56,280	59,656	63,236	67,030	71,052	75,315	79,834	84,624	89,701
5,411	5,736	6,080	64,627	6,831	7,241	7,676	8,136	116,852	9,142	9,690	10,272	10,888	1,393,393	615,300	12,968	13,746	14,570	133,129	16,371	17,354
2,694	2,791	2,892	2,996	3,104	3,215	3,331	3,451	3,575	3,704	3,837	3,976	4,119	4,267	4,421	4,580	4,745	4,915	5,092	5,276	5,466
31,962	33,113	34,305	35,540	36,819	38,144	39,518	40,940	42,414	43,941	45,523	47,162	48,860	50,619	52,441	54,329	56,284	58,311	60,410	62,585	64,838
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
68,036	71,287	74,702	136,474	82,064	86,030	90,199	94,583	207,421	104,040	109,139	114,503	120,146	1,507,935	735,397	138,906	145,827	153,112	278,465	168,856	177,358
133,372	139,459	145,814	94,265	159,372	166,599	174,142	182,013	81,999	198,796	207,737	217,063	226,792	-1,144,913	-355,546	258,556	270,061	282,057	176,878	307,597	321,183
-274,472	-135,013	10,801	105,066	264,438	431,037	605,179	787,192	869,191	1,067,987	1,275,724	1,492,787	1,719,580	574,667	219,121	477,677	747,738	1,029,795	1,206,673	1,514,270	1,835,452
0.33	0.31	0.29	0.27	0.25	0.23	0.22	0.20	0.19	0.18	0.17	0.16	0.15	0.14	0.13	0.12	0.11	0.10	0.10	0.09	0.08
43,675	42,681	41,706	25,198	39,815	38,897	37,999	37,118	15,628	35,410	34,581	33,770	32,975	-155,579	-45,153	30,688	29,956	29,240	17,137	27,852	27,180
-516,546	-473,865	-432,159	-406,961	-367,146	-328,249	-290,250	-253,132	-237,504	-202,095	-167,513	-133,743	-100,768	-256,347	-301,500	-270,812	-240,856	-211,616	-194,479	-166,627	-139,447

Year 38	Year 39	Year 40	Year 41	Year 42	Year 43	Year 44	Year 45	Year 46	Year 47	Year 48	Year 49	Year 50
537,787	562,719	588,806	616,103	644,666	674,553	705,825	738,547	772,786	808,612	846,100	885,325	926,368
-16,134	-16,882	-17,664	-18,483	-19,340	-20,237	-21,175	-22,156	-23,184	-24,258	-25,383	-26,560	-27,791
521,653	545,837	571,142	597,620	625,326	654,316	684,650	716,391	749,602	784,354	820,717	858,765	898,577
0	0	0	0	0	0	0	0	0	0	0	0	0
521,653	545,837	571,142	597,620	625,326	654,316	684,650	716,391	749,602	784,354	820,717	858,765	898,577
95,083	100,788	106,836	113,246	120,040	127,243	134,878	142,970	151,548	160,641	170,280	180,497	191,326
18,395	19,499	498,372	21,909	23,223	24,616	26,093	2,178,444	29,319	31,078	32,942	34,919	600,567
5,662	5,866	6,077	6,296	6,523	6,758	7,001	7,253	7,514	7,785	8,065	8,355	8,656
67,172	69,590	72,095	74,691	77,380	80,165	83,051	86,041	89,139	92,348	95,672	99,116	102,684
0	0	0	0	0	0	0	0	0	0	0	0	0
186,313	195,743	683,381	216,141	227,166	238,782	251,023	2,414,709	277,520	291,851	306,959	322,887	903,233
335,341	350,094	-112,238	381,479	398,160	415,534	433,627	-1,698,318	472,083	492,503	513,757	535,878	-4,656
2,170,793	2,520,887	2,408,649	2,790,127	3,188,287	3,603,821	4,037,448	2,339,130	2,811,212	3,303,715	3,817,473	4,353,351	4,348,695
0.08	0.07	0.07	0.06	0.06	0.06	0.05	0.05	0.05	0.04	0.04	0.04	0.04
26,521	25,877	-7,753	24,628	24,023	23,431	22,852	-83,645	21,730	21,187	20,655	20,135	-163
-112,926	-87,049	-94,802	-70,174	-46,151	-22,720	132	-83,513	-61,783	-40,597	-19,941	194	30

Reference: 001 (appendix two)  
 Organisation: Loreburn Housing Association  
 Category: Registered Social Landlord

**Loreburn Housing Association  
 Proposed 2008/9 Assumptions  
 Scottish Govt figures**

\*\*\* Discounted Cashflow including VAT and inflation\*\*\*

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17
<b>INCOME</b>																	
<b>Rental Income</b>																	
Main Stock	25,139	78,456	108,824	113,210	117,772	122,518	127,456	132,592	137,936	143,495	149,278	155,293	161,552	168,062	174,835	181,881	189,211
Less : Voids & Bad Debts	-251	-785	-1,088	-1,132	-1,178	-1,225	-1,275	-1,326	-1,379	-1,435	-1,493	-1,553	-1,616	-1,681	-1,748	-1,819	-1,892
<b>Total Rental Income</b>	<b>24,888</b>	<b>77,672</b>	<b>107,736</b>	<b>112,078</b>	<b>116,594</b>	<b>121,293</b>	<b>126,181</b>	<b>131,266</b>	<b>136,557</b>	<b>142,060</b>	<b>147,785</b>	<b>153,740</b>	<b>159,936</b>	<b>166,382</b>	<b>173,087</b>	<b>180,062</b>	<b>187,319</b>
<b>Other Income</b>																	
Development Allowances	0	27,679	4,884	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL INCOME</b>	<b>24,888</b>	<b>105,350</b>	<b>112,620</b>	<b>112,078</b>	<b>116,594</b>	<b>121,293</b>	<b>126,181</b>	<b>131,266</b>	<b>136,557</b>	<b>142,060</b>	<b>147,785</b>	<b>153,740</b>	<b>159,936</b>	<b>166,382</b>	<b>173,087</b>	<b>180,062</b>	<b>187,319</b>
<b>EXPENDITURE</b>																	
Responsive Repairs & Cyclical and major repairs	3,375 3,825	10,429 11,819	14,322 16,232	14,752 16,719	15,194 17,220	15,650 17,737	16,120 18,269	16,603 18,817	17,101 19,382	17,614 19,963	18,143 20,562	18,687 21,179	19,248 21,814	19,825 22,469	20,420 23,143	21,033 23,837	21,664 24,552
Other Direct Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Management & Administration	2,340	7,231	9,930	10,228	10,535	10,851	11,176	11,512	11,857	12,213	12,579	12,956	13,345	13,745	14,158	14,583	15,020
<b>Other Costs</b>																	
Direct Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of raising pf	2,400	0															
Development Costs	0	0	1,331,056	101,174													
<b>TOTAL EXPENDITURE</b>	<b>11,940</b>	<b>29,479</b>	<b>1,371,540</b>	<b>142,872</b>	<b>42,949</b>	<b>44,238</b>	<b>45,565</b>	<b>46,932</b>	<b>48,340</b>	<b>49,790</b>	<b>51,284</b>	<b>52,822</b>	<b>54,407</b>	<b>56,039</b>	<b>57,720</b>	<b>59,452</b>	<b>61,236</b>
<b>NET SURPLUS / DEFICIT IN THE YEAR</b>	<b>12,948</b>	<b>75,872</b>	<b>-1,258,919</b>	<b>-30,795</b>	<b>73,645</b>	<b>77,055</b>	<b>80,616</b>	<b>84,334</b>	<b>88,217</b>	<b>92,270</b>	<b>96,501</b>	<b>100,918</b>	<b>105,529</b>	<b>110,342</b>	<b>115,366</b>	<b>120,610</b>	<b>126,083</b>
<b>CUMULATIVE SURPLUS / DEFICIT</b>	<b>12,948</b>	<b>88,819</b>	<b>-1,170,100</b>	<b>-1,200,895</b>	<b>-1,127,249</b>	<b>-1,050,194</b>	<b>-969,578</b>	<b>-885,243</b>	<b>-797,027</b>	<b>-704,757</b>	<b>-608,256</b>	<b>-507,338</b>	<b>-401,809</b>	<b>-291,467</b>	<b>-176,100</b>	<b>-55,490</b>	<b>70,593</b>
<b>DISCOUNTING</b>																	
<b>Discount Rate</b>	<b>0.97</b>	<b>0.90</b>	<b>0.84</b>	<b>0.79</b>	<b>0.74</b>	<b>0.69</b>	<b>0.64</b>	<b>0.60</b>	<b>0.56</b>	<b>0.53</b>	<b>0.49</b>	<b>0.46</b>	<b>0.43</b>	<b>0.40</b>	<b>0.37</b>	<b>0.35</b>	<b>0.33</b>
<b>DISCOUNTED SURPLUS / DEFICIT IN YEAR</b>	<b>12,517</b>	<b>68,550</b>	<b>-1,063,013</b>	<b>-24,301</b>	<b>54,315</b>	<b>53,112</b>	<b>51,931</b>	<b>50,772</b>	<b>49,635</b>	<b>48,519</b>	<b>47,424</b>	<b>46,351</b>	<b>45,298</b>	<b>44,265</b>	<b>43,253</b>	<b>42,261</b>	<b>41,288</b>
<b>CUMULATIVE DISCOUNTED SURPLUS / DEFICIT</b>	<b>12,517</b>	<b>81,066</b>	<b>-981,946</b>	<b>-1,006,248</b>	<b>-951,933</b>	<b>-898,821</b>	<b>-846,890</b>	<b>-796,118</b>	<b>-746,483</b>	<b>-697,964</b>	<b>-650,539</b>	<b>-604,189</b>	<b>-558,891</b>	<b>-514,626</b>	<b>-471,373</b>	<b>-429,112</b>	<b>-387,824</b>

Year 18	Year 19	Year 20	Year 21	Year 22	Year 23	Year 24	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30
196,836	204,769	213,021	221,605	230,536	239,827	249,492	259,546	270,006	280,887	292,207	303,983	316,233
-1,968	-2,048	-2,130	-2,216	-2,305	-2,398	-2,495	-2,595	-2,700	-2,809	-2,922	-3,040	-3,162
194,868	202,721	210,890	219,389	228,231	237,428	246,997	256,951	267,306	278,078	289,285	300,943	313,071
0	0	0	0	0	0	0	0	0	0	0	0	0
194,868	202,721	210,890	219,389	228,231	237,428	246,997	256,951	267,306	278,078	289,285	300,943	313,071
22,313	22,983	23,672	24,383	25,114	25,867	26,643	27,443	28,266	29,114	29,987	30,887	31,814
25,289	26,047	26,829	27,634	28,463	29,316	30,196	31,102	32,035	32,996	33,986	35,005	36,055
0	0	0	0	0	0	0	0	0	0	0	0	0
15,471	15,935	16,413	16,905	17,412	17,935	18,473	19,027	19,598	20,186	20,791	21,415	22,057
0	0	0	0	0	0	0	0	0	0	0	0	0
63,073	64,965	66,914	68,921	70,989	73,119	75,312	77,571	79,899	82,296	84,764	87,307	89,927
131,795	137,756	143,977	150,468	157,242	164,310	171,685	179,379	187,407	195,783	204,521	213,636	223,145
202,388	340,144	484,121	634,589	791,831	956,141	1,127,826	1,307,205	1,494,612	1,690,395	1,894,916	2,108,551	2,331,696
0.31	0.29	0.27	0.25	0.23	0.22	0.20	0.19	0.18	0.17	0.16	0.15	0.14
40,335	39,401	38,487	37,590	36,713	35,853	35,012	34,188	33,381	32,592	31,819	31,062	30,322
-347,489	-308,088	-269,601	-232,011	-195,298	-159,445	-124,433	-90,246	-56,864	-24,273	7,546	38,608	68,931