

REFERENCE:
ORGANISATION:
CATEGORY:

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LANGSTANE HOUSING ASSOCIATION
REGISTERED SOCIAL LANDLORD

20th March 2008

LANGSTANE
HOUSING ASSOCIATION LTD

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Aileen Piacentini
Communities Scotland
Highlander House
58 Waterloo Street
GLASGOW
G2 7DA

25 MAR 2008

Dear Madam

Consultation Paper: Better Value from Housing Association Grant – Changes to Grant in 2008-2009

I refer to the above paper issued to stakeholders and consultants some weeks ago. I am now writing on behalf of Langstane Housing Association Limited to pass on the opinions of my Committee of Management in relation to the consultation paper.

Our general position is that we are very concerned indeed about the implications of the changes to the assumptions. We start from the basis that with existing assumptions, the disparity between the assumptions used for HAG calculation and actual reality is such that we conventionally already contribute on average between £10 and £11,000 per unit from reserves to meet the cost of new development. We have noted the observations being collected by and presented on behalf of the Scottish Federation of Housing Associations, who estimate that the changes to assumptions will require another £5,000 per unit on average to be provided by developing associations. We respectfully disagree. Our calculation is £10,000 per unit.

I shall deal with each assumption in turn.

a. Voids Levels

To reduce the assumption of voids to 1% is considerably at variance with the reality which we face day in day out. As you will see from the same sources from which you claim to have taken the data, i.e. the APSR returns, our voids levels are consistently in advance of twice that rate. For this we make no apology. Langstane Housing Association has a turnover of almost 20% of its stock per annum and this of necessity means that it is impossible to maintain voids rates at 1% or less. This factor alone will add considerably to the affordability of new developments.



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We are baffled to know where the data on "the average cost of all RSL borrowing" comes from. Certainly, the figure of 5.6% is considerably below what we can obtain as a reasonably efficient and effective developing association. Of all the assumptions contained in the review to the consultation document, this is the one which probably has the most profound effect. It is difficult to know from the information contained in the consultation paper if the figure is an overall average, skewed by large organisations with exceptionally cheap money available to them and whether or not this has been looked at from the point of view of developing associations alone. Certainly, from my experience, I know of no association which can borrow as cheaply as what you claim to be the average.

c. Management, Maintenance and Major Repairs Allowances

You suggest that new stock being funded by HAG ought to be less expensive to manage and maintain than existing stock. You infer from that that the allowances used in HAG calculations overstate the actual cost of managing new stock and are therefore more generous than they need to be. It is difficult to follow the logic of this argument. The whole point of allowances in HAG calculations is to permit associations to borrow the maximum they can afford while setting aside adequate sums for management and maintenance in the long term. This will enable associations to make provision from the rental stream for maintenance throughout the property's life and the fact that there will be less expenditure on major repairs in the early years is neither here nor there.

In any event, the management allowances built into the calculations are already considerably short of actual costs in managing the stock. Not only is this our experience, but it is common to all the associations in this part of the world and most of our peer group associations as well.

Conclusion

We are aware that in the wake of "Firm Foundations" HAG competition, use of reserves, and the potential for cross subsidy are all just around the corner. If it is the intention of the Scottish Government or Communities Scotland to limit HAG to encourage use of reserves or other inventive means of what Firm Foundations calls more efficient procurement in development, then that at least would have a logic to it. It would not necessarily make it welcome but it would at least be understandable. The proposals contained in the consultation paper on the changes to HAG assumptions are in our view broadly unjustified and, particularly with regard to the calculations on the cost of borrowing, likely to add significantly to costs already being incurred by developing associations. It will limit the number of associations who can afford to develop.

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I should be grateful if these comments would be taken into account and as requested, I attach the respondent information form.

Yours faithfully



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Chief Executive

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