

REFERENCE:

043

ORGANISATION:

HORIZON HOUSING ASSOCIATION

CATEGORY:

REGISTERED SOCIAL LANDLORD

HORIZON HOUSING ASSOCIATION

PROPOSED NEW HAG SUBSIDY TARGETS

RESPONSE TO COMMUNITIES SCOTLAND CONSULTATION

Horizon Housing Association welcomes the Scottish Governments objectives of increasing housing supply and recognises the need against the background of constraints on public funding to deliver both new housing and services to our customers as efficiently as possible.

Horizon however, as one of the main suppliers of wheelchair accessible housing, wishes to stress the need for account to be taken of the fact that particular types of housing by their very nature (e.g. in terms of floor area alone) will always be more expensive to build. The Scottish Government is promoting real housing choice and a sustainable future, but to achieve this must recognise the variety of housing and/or support needs which exist among our communities and the need to ensure that there is adequate levels of funding to meet these needs.

While the Association recognises that efficient delivery cannot be achieved without achieving actual efficiencies in both capital and running costs, account requires to be taken of which costs individual or groups of Associations can in practice control

Our view is that proposed increases in rental income (a cost clearly within the Associations control)reflects what is happening in practice. There is concern however over the additional burden this places both on individuals and on the Housing Benefit budget . This budget, which is no longer "ring fenced" will be subject to other external pressures which the Association clearly does not control. This could result in pressure ironically to cap rental increases at inflation only levels.

The Housing Association sector as a whole is regarded as "low risk" by private lenders and again while the Association has no current real concerns over its ability to raise the required level of private finance on specific projects, there is general concern over the volatile nature of the lending market. The Association does agree that using Associations "bulk" purchasing power may be one way of securing more competitive rates. As evidence has shown the impact of the new HAG appraisal system is to reduce HAG levels by around 8%, a statistic confirmed by our own internal reappraisal of a current new build project.

Again this in itself is not a major source of concern. Over time however , as confirmed at a recent SFHA consultation session, it is clear that when account is taken of Associations planned maintenance costs that individual projects are potentially not "breaking even" until year 26. This severely constrains , in Horizons view, both small and medium Associations ability to use "free reserves" to part fund development activity. It is our view that the

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majority of Associations reserves will not be "free" in the real sense but be set aside to enable investment in own stock in the form of essential planned maintenance programmes.

While the proposed changes in the HAG appraisal system in themselves may in some instances (with the exception of maintenance costs) reflect what is actually happening in practice (in terms of rent increases, lending rates etc) it is not these changes alone which are the main concern. It is the proposed changes to the HAG appraisal system **combined** with the tight HAG subsidy targets which is our main concern.

This concern is not solely a business one but a concern that Associations will not be able to deliver new housing for particular needs and in turn be unable to deliver the local priorities of our local authority partners as expressed through their respective Local Housing Strategies.

The ability to deliver at the proposed HAG subsidy targets (and in turn deliver substantial efficiencies), is of concern unless issues which are not within individual Associations direct control; are addressed.

We have, as a movement, for example all but removed competition among contractors and evidence to date suggests that existing alliance/strategic partnerships have not delivered the expected levels of efficiency savings. Horizon is a member of the West Lothian Strategic Alliance and while there have been other benefits to this partnership, reduction in capital costs has not been one of them.

The aim of achieving efficiencies is severely constrained by other external factors namely lack of competition among suppliers/contractors, rising land values, increased cost of site servicing and remediation and most importantly lack of land supply

In summary Horizon Housing Association supports the need to deliver both new housing and services as efficiently as possible and as an organisation has continually been looking at ways to achieve this. The Association is concerned about trends outwith the Associations direct control such as rising capital and maintenance costs and while we will ensure we strive, as a business, to reduce these we feel there needs to be a greater understanding of the factors influencing these costs. There requires also to be a deliverable action plan developed by the Scottish Government to tackle these issues, especially that of land supply.

If Associations alone are required to take action to achieve efficiencies, the effect will be negligible but the cost high as vulnerable groups are increasing squeezed to the margins of society.

Margaret Turner

Director of Development and Property Investment

25th March 2008