

REFERENCE:

013

ORGANISATION:

WILLIAMSBURGH HOUSING ASSOCIATION

CATEGORY:

REGISTERED SOCIAL LANDLORD

Please note - this response is endorsed by Paisley South Housing Association, Barrhead Housing Association, Bridgewater Housing Association and Ferguslie Park Housing Association.

Better Value from Housing Association Grant

Response to consultation paper

Prepared by Williamsburgh Housing Association Ltd

Background

The increasing pressures on the HAG funding regime are acknowledged. Year on year, building cost inflation has been rising at levels significantly greater than either rent increases or previous guidance on HAG assumptions and allowances. It is therefore inevitable that year on year, the HAG budget has come under increasing pressure with a reduced capacity to deliver units for a given budget.

The consultation paper identifies some of the aims of Firm Foundations and specifically refers to the stated need for new housing to be procured more efficiently. It notes that responses to Firm Foundations are currently being evaluated and that there will be further consultation about competition later this year.

Despite highlighting the ongoing process of consultation, where presumably responses are being taken on board and will influence the direction of this new approach, this document highlights that more immediate progress in reducing the cost of subsidy per house has to be made. This appears to diminish the value placed on the consultation process.

This impression is re-enforced by the timetable for consultation responses to this draft guidance having to be submitted by 25th March, with the paper stating that the finalised guidance will be issued by end April 2008.

The consultation timescale

The limited time for consideration of responses and potential re-drafting of guidance, together with the statement that more immediate progress is required, results in a lack of confidence that consultation responses will be taken seriously or that there is any prospect of the feedback from the consultation exercise influencing the final

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guidance. The similarity with the consultation process for the equivalent guidance last year, seems clear.

The document highlights that the proposed changes go “substantially further” than previously and explains that the paper sets out the changes proposed for HAG assumptions and allowances from April 2008. It would be expected that a paper proposing such dramatic changes would set out the reason for making these changes, the objectives of the changes, the method proposed for implementing the changes and crucially the impact or effect of the changes on current working methods and assumptions. On this final point, the paper is noticeably silent.

As a result, those considering making a response to the paper have been at a distinct disadvantage, because a considerable part of the consultation period has been lost, as RSLs attempted to understand the likely implications of the paper, not only on the viability of individual projects, but also and much more significantly, the potential impact on development programmes, thirty year plans and indeed viability assessments.

This situation is compounded because the paper only states the individual proposed changes, without indicating the likely effect of each change, let alone the combined effect of the series of changes proposed – this combined effect is significant.

Of course, while the timing of the consultation process is appropriate (if a little late) for the introduction of new guidance from April 2008, the consultation process does coincide with the most fraught time of year for those managing development programmes (particularly this year, with Communities Scotland overtly encouraging RSL's to submit as many tender reports as possible in March 08 – ironically as a direct consequence of the new funding regime that will apply from April 2008).

Sources of related information

The SFHA information note on this discussion paper, based mainly on feedback from a consultant, became available at the beginning of March 2008. The fact that specialist advice had to be commissions by RSL's representative body, gives some indication of the complexity of the issues involved. What the SFHA information note lacks clarity,

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however, is in summarising the implications of the guidance. The present and proposed assumptions are stated, together with comparisons of gearing ratios and private finance requirements, supported by a number of worked and live examples. These show the likely shift from HAG to private finance, generally on a project by project basis, but the longer term impact, such on development programmes, potential competition for HAG funding and 30 year plans, is not described.

More detailed guidance from a financial consultant has subsequently been made available to many RSLs and this certainly provides a clearer picture of the likely impact of the proposals. This additional advice goes further than the SFHA's paper and indeed suggests that the changes are more wide ranging and dramatic than that indicated by the SFHA (by highlighting that the private finance factors will not be static as implied by the SFHA, but will in fact be variable, depending on rent levels and costs per unit). As a result, there has been further confusion and uncertainty about the potential full implications of the proposed guidance.

The consultation paper

The consultation paper looks at each element of the HAG assumptions and allowances in turn, but fails to consider the inevitable linkage between inflation assumptions and rent increases. Reference is made to various comparisons of data provided annually by RSLs, collected from a number of sources.

Rents

It is identified that rents have increased by nearly 2% above inflation (assumed to be RPI?). This comparison may not be sound. Rent increases reflect the cost of providing the social housing service rather than RPI. For example, where salary costs have consistently risen at more than RPI, the cost of delivering the service will inevitably be higher than RPI. The data used is presumably averaged across all RSLs. A number of these are required to raise rents annually at RPI +1% in order to deliver their business plans. Other RSLs have focused on delivering increased efficiencies year on year. Williamsburgh HA, for example, have applied rent increases equal to RPI, for a number of years now. The position of RSLs such as Williamsburgh HA is not acknowledged in the discussion paper. The reference to five year plans is also flawed, as

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these documents generally tend to take a conservative "worst case" view, and do not necessarily accurately predict the actual decisions that will be taken.

Voids

Again, statistical information is used as the basis of the proposed changes. Few RSLs would argue that void levels are (or ought to be) less than the 2% assumption in the current guidance. The fundamental flaw in the consultation paper's argument is that the current assumption, relates to voids **and bad debt**. There is no reference to bad debt provision in the proposed new guidance and the analysis of void statistics alone, is an invalid basis for an assessment of the actual levels of voids **and bad debt**.

Private finance

This is the least clear part of the consultation paper. Most RSLs view the private finance factor (or multiplier) as a direct reflection of the cost to RSLs, of borrowing. This view has been reinforced in recent years because the main change to previous guidance on HAG assumptions and allowances, has been to adjust this multiplier to reflect reduced borrowing costs, based on the London Inter Bank Offer Rate. The guidance implies that RSLs are, in practice, able to borrow at less cost than the current assumptions. This view is questionable.

The guidance indicates that a potential change here appears to have been considered "We **could** propose that...the assumption for the cost of borrowing should match the 5.6% average cost." It goes on to say, however, that this will not be implemented "...we do not propose to do this."

What does this mean? Is it a thinly veiled threat for the future? Does it imply that the private finance factor (currently 18.13692) will remain unchanged?

Certainly, this last implication is far from reality, as the SFHA discussion paper and subsequent advice from a financial consultant have demonstrated - with many RSLs potentially looking at a 30% increase in the private finance factor, simply due to the combined effect of the other changes proposed elsewhere in the consultation paper.

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Inflation

On the face of it, adjusting the inflation assumption from 2.5% to 3% seems a minor change, in keeping with recent experience. What is not indicated, let alone highlighted in the consultation paper, is that by setting inflation at one level (3%) for costs, but setting inflation for income (rents) at a higher level (inflation +1%). The result is two different private finance factors - one for costs (SFHA suggest 19.24630) and one for income (SFHA suggest 21.76458).

A financial consultant has, however, demonstrated that the actual factors will vary (effectively from scheme to scheme), depending on cost per unit (examples given based on £100k per unit) and rental levels (with a range of examples provided from £2500 to £4000). This results in private finance factors varying from 22.95, to as high as 24.418.

There is no suggestion of such radical changes in the consultation paper. As a consequence of this lack of information on the potential implications of the changes, the consultation paper is flawed and should be regarded as an inadequate basis for informed consultation.

Management, maintenance and major repairs allowances

The basis for the proposal to freeze these allowances at current levels is not coherent. It is simply suggested that newer stock ought to be less expensive to manage and maintain than current stock, because current stock includes "older" and "high rise" properties.

In what way do older and high rise properties have higher costs relating to the management of tenancies? How many RSLs have high rise properties? Do newer properties not tend to have more specialist equipment (adaptations, security systems, and lifts) than older stock, with inherent maintenance and replacement costs? Do newer developments tend not to have increased landscaped areas to be maintained and surface water disposal systems with associated maintenance costs? Williamsburgh HA certainly do not find CTI stock, some now approaching thirty years since their refurbishment, any more expensive to manage and maintain, than new stock.

In addition, although under the terms of the proposed guidance, it is proposed to freeze these allowances at current levels, there is no indication of what level these will be set at in future years.

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Summary

Clearly, as stated in the conclusion of the consultation paper, the intention of the proposed guidance is to maximise the potential that RSLs have to borrow as fully as possible. Sound familiar? Are we as a nation and indeed globally, not now experiencing the effect of many years of such a policy – the “credit crunch”?

Worryingly, the lack of information within the consultation paper on the potential impact of these proposals, may mean that many RSLs might not appreciate the impact of what is proposed – essentially, an increased borrowing requirement for developing RSLs of some 30%, in order for the Scottish Government to be able to deliver, in theory, about 17% more new homes, for the current level of public subsidy.

Such significant changes will inevitably lead a large number of RSLs, who have a track record of efficiently and effectively delivering new stock, to a high standard, in response to local situations and environments, to question whether it is viable for them to continue to promote a development programme. Any such loss of diversity and ability to respond sensitively to local and community need, will inevitably be to the detriment of the delivery of social rented housing.

Note - Some details referred to in this consultation response are based on information provided by the SFHA in their review of HAG Financial Appraisal 2008-9 and Euan Ramsay, Active Financial Management, in the paper Better value from housing association grant – Response to Scottish Government consultation.