

REFERENCE:
ORGANISATION:
CATEGORY:

034
WESLO HOUSING MANAGEMENT
REGISTERED SOCIAL LANDLORD

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

25 March 2008

Dear Aileen

Better Value from Housing Association Grant
Changes to Grant from 2008/09

Having received Alistair Dickson's letter of 12 February I am now in a position to respond.

The comments that follow are heavily influenced by Weslo's experience in the provision of new housing for rent since its inception in 1994. Not being a Housing Association, or indeed registered as a social landlord until February of last year, Weslo's experience in this field has been limited to activities funded by New Housing Partnership Grant during the period 1998 – 2003, our own activities in purchasing (for subsequent renting) housing from owners under threat of re-possession under firstly our own (unsubsidised) Flexible Tenure Scheme and latterly the National Mortgage to Rent Scheme. These primary activities have been augmented by the purchase of vacant properties at auction and the building of 16 mid rent flats, again unsubsidised. In total, by these means we have added some 469 houses to our own rented stock as shown below.

| | Initiative | No of Houses | Grant Funding |
|-------|--|---------------------|----------------------|
| (i) | New Housing Partnership (new build) | 298 | £6,269,000.00 |
| (ii) | New Housing Partnership (Empty Homes Initiative) | 77 | £1,006,675.00 |
| (iii) | Flexible Tenure Scheme | 43 | £0.00 |
| (iv) | Mortgage to Rent | 22 | £1,329,041.79 |
| (v) | Mid-Rent | 16 | £0.00 |
| (vi) | Auction | 13 | £0.00 |
| | | <hr/> | <hr/> |
| | | 469 | £8,604,716.79 |

To.../

To realise this number of units in the past 14 years while unregistered and therefore unable to access the single largest grant subsidy for the purpose, Weslo has had to maximise any opportunities and in turn complement our activities by the adoption of a wider view of risk associated with such provision. This has indeed served us well and we look forward to applying this philosophy in the future as, now registered, we form a part of the West Lothian Strategic Alliance (along with Almond Housing Association, Horizon Housing Association and the West Lothian Housing Partnership) set up to develop some 500 houses for rent in West Lothian in partnership with West Lothian Council. In Falkirk district we have two potential developments in the Bo'ness area. In both of these local authority areas, but particularly in the Falkirk area where we operate as an individual organisation, we are already anticipating operating with reduced levels of allowances across the board in order to minimise the level of public subsidy which will be required to bring the various projects with which we are involved, to fruition.

Consequently, we are comfortable with the general content of Alistair's letter detailing the results of your review of the assumptions and allowances used in calculating Housing Association Grant. Specifically, we would comment as follows;

1. Allocation of Funds

The allocation of public expenditure at a regional level as proposed in 'Firm Foundations' does not in itself give a reason for concern. The most important factor is that local providers remain the end user/recipient. Weslo will have no difficulties working with larger, national organisations as long as the housing stock resulting from such partnerships is provided for Weslo's ownership thus maintaining the local management and maintenance model which has proved to be successful for us and our tenants. In addition the concept of local accountability of a landlord to its tenants has been successfully reinforced in recent years through the medium of stock transfers. Weslo would not wish to see this accountability compromised and diluted by changes in funding mechanisms providing a shift back to a model incorporating a more remote form of management.

2. Assumptions/Allowances

Rather than embracing a 'one size fits all' philosophy, we would be inclined to support a view that demonstrated a more refined determination of permissible allowances based on a Landlord's specific situation. Factors to be considered in such an assessment would at least include present/projected income stream, current/future resources, position with regard to SHQS, all of which are key in the appraisal of a Landlord's economic health.

3. Average Rent Rise

Weslo in fact largely operates the rent rise regime proposed in your letter, For our LSVT stock we are already limited to rent rises of RPI + 1%. For our NHP stock and WLSA projected new build we are/will be restricted to rent rises of RPI only. Consequently our total rent pool will not increase by more than RPI + 1% in any one year. Nevertheless, as stated in point 2 above, we would prefer to see a shift from 'one size fits all', preferring to support a system which allows for individual assessment of the situation of an RSL on a project by project basis against the background of their general economic health. While we recognise the more labour intensive nature of this approach, we believe it is the correct approach to employ.

4. Voids

Notwithstanding the previous comments counselling against a single allowance or assumption for the whole sector, we would support this proposed reduction. Again though, we would support the retention of discretion for individual projects where consideration of influential factors would support varying levels of void assumptions e.g. demand, specialised housing, specific needs etc.

5. Private Finance

We would welcome your proposal to retain the current assumption of 6% for the cost of new borrowing. It is, as acknowledged by you, necessary to allow RSL's some flexibility in the future cost of funds, not least because of the present circumstances within capital markets. Again, we would promote a bespoke assessment allowing for prevailing economic circumstances as the correct method of assessment.

6. Inflation

While we acknowledge that your proposed inflation assumption of 3% brings it closer into line with both actual inflation and RSL's own planning assumptions, it is still nevertheless higher than the Westminster governments own target of 2%. Both branches of government can't be right!

7. Management Maintenance and Repairs Allowances

In Weslo's business plan for the provision of the 298 New Housing Partnership houses 1999 - 2001 we assumed allowances that were well below the recognised prevailing allowances. This was a business decision that gave Weslo an edge against our competitors for the provision of these houses. In arriving at the projected figures we were mindful that in the years 1994 – 1999 we had sold 275 houses through Right to Buy. We took the view therefore that the new houses would be quite simply "straight replacements" and this allowed us to set marginal allowances during the construction phase which appropriately scaled increases of management and maintenance allowances post construction. We continued to sell houses post 1999 through Right to Buy and consequently maintain the same view of new additions to our stock – that they are viewed as RTB "replacements" and management costs in particular will be marginal.

Overall therefore, but bearing in mind our foregoing comments, Weslo is of the view that scope does indeed exist for reductions in Housing Association Grant without compromising the number of houses delivered. Whether this is possible without compromising long term financial sustainability of Landlord's or causing rents to rise by more than is planned can only be fully understood when considering projects on an individual basis using factual rather than theoretical analysis.

Accordingly, we look forward to engaging with Government in future years to play a full part in the process.

Yours sincerely

Mike Bruce
Chief Executive