



## **Trust Housing Association**

### **Response to Better Value from Housing Association Grant**

#### **1. Introduction**

This response comments on the proposals regarding Housing Association Grant changes for 2008 – 2009.

The comments are based on experience and feedback within the RSL sector and research completed by Glasgow University on Social Housing Development Costs.

#### **2. Regional Procurement**

The consultation paper proposes procurement at a “regional level and through a competitive process that will encourage innovation and efficiency in the way in which RSLs acquire new stock”

It would appear that this is based on the English model of development within the social housing sector where the average regional budget is in the region of £500 million per regional developer.

Efficiencies in procurement and supply chain management are achievable at these levels, which would assist in delivering more houses albeit not necessarily affecting HAG levels – but would deliver more for the public purse.

However, the proposal to adopt regional developers in Scotland would suggest that the overall RSL market value of circa £ 500 million in Scotland, similar to that of a region in England, would be diluted between a number of Scottish regional developers.

Maximum procurement efficiencies could be achieved by purchasing at the highest level – with the Scottish Government tendering national framework contracts to allow contractors and consultants to deliver a national procurement supply chain, allowing volume procurement, but still be capable of delivering innovation, quality and variety of design at a local level – allowing the process to be accessed by those organisations that wish to develop within agreed cost levels.

It has been acknowledged that previous attempts of joint regional procurement have not delivered, largely due to the scale of the programme and complexities regarding standardising house types etc – we believe that to progress on a regional basis of £80 million development partnerships for example, will not deliver the efficiencies sought, and is a missed opportunity.

### **3. Review of Allowances and Assumptions**

The consultation paper refers to the financial strength of the RSL Sector.

It could be argued however that this is should not be surprising on the basis that in general terms the RSL sector is “relatively young” – with high numbers of relatively new or modern stock, delivered by the development process.

The typical “financial curve” regarding new-build major repairs expenditure, is usually low within years 1-10, and then rises considerably through years 11 – 30 as major components are replaced.

Building reserves to cover such replacements is surely considered financial good practice and demonstrates good planning to ensure that appropriate investment levels are maintained within the sector to the benefit of our tenants – and avoiding previous experiences within the local authority housing sector.

The assumptions made about the relative value of the sector’s reserves is only a snapshot in time. It pre supposes that these assets are available to substitute for national funding thereby allowing a reduced grant level to be made up without the need to increase borrowing and consequently raise rents to pay for it.

Much of the reserves within the sector will be reserved for specific future planned purposes and will not therefore be available to use for top up funding. A final comment on this section would simply be to point out that reserves used for this purpose can only be used once – when they are gone, they are gone!

### **4. Rents**

In terms of the rent profile increase, it would appear that this has been based on RSL feedback and reflects actual proposed increases.

However when consideration is given to the high numbers of tenants on housing benefit within social housing, the impact on efficiency and savings would seem in real terms minimal.

### **5. Voids**

As the RSL sector stock becomes older, it could be argued that the void rate will increase, as potential investment is necessary within void properties – therefore the reduction in voids allowance could be questioned.

## **6. Private Finance**

It is noted that this remains constant at 6% - however it is interesting that the average rate is listed at 5.6%.

A large national RSL, with over 50,000 homes and assets of £2.5 billion were intimating the strength of group borrowing power – borrowing at 5.75%.

This does not represent any great efficiencies or savings against rates achievable from small and medium sized organisations, which may be viewed as lower risk by lenders – therefore in terms of the regional model being proposed – is Big really beautiful ?

We have not seen any empirical evidence to support this in the Scottish context.

## **7. Management, maintenance and major repairs allowances**

The assumptions made within these allowances appear insular and do not reflect the current markets.

In terms of major repairs, the current HAG model lacks the reality of the real costs of the project over the 30 year life cycle, and when holistic life cycles are compared to the maintenance assumptions, there is often divergence.

Freezing the allowances is also not reflective of the current construction sector, where the buoyancy of the construction market is giving rise to increased tender prices due to the amount of work available, and the limited amount of contractors and labour, where wage increases are above inflation.

Given the large and long term scale of many of the major building projects currently in the pipeline in Scotland, it is likely that this situation will remain for the foreseeable future.

## **8. Is the process so wrong?**

Research completed by Glasgow University on the cost of an affordable home suggests that the average RSL unit build cost is £ 114,000 per unit, versus the private sector lower quartile indicator of £ 129,000 per unit – so it would appear that RSL's can deliver a more cost effective product.

In terms of the product, it would be reasonable to assume that the RSL sector are delivering a better product in terms of quality, space standards, sustainability and the ability of the home to be adaptable over a tenant's life.

It should also be considered that the land made available for affordable housing tends to be more problematic in terms of Brownfield sites, rural locations etc, that mainstream private developers would not view as profitable

for development, with the revised proposals potentially restricting the viability to develop such sites.

The unit cost comparison between private and public sector is also relevant, when consideration of the amount of regulation within the RSL sector covering EU procurement and tendering etc.

## **9. Conclusions**

The current proposals in respect of changes to HAG are not inclusive or representative of the overall development process.

In addition to increasing private finance contributions by around 30%, the Cashflow produced over thirty years gives rise to increased peak debt earlier within the 30 year life-cycle and a break-even towards the end of the 30 year period, which may increase overall project risk and viability – which in turn may reduce deliverable units.

Independent research suggests that the product is delivered more cost effectively by RSLs compared to the private sector, with quality, sustainability and space benefits.

In respect of HAG funding, comparison with English RSLs by Glasgow University, suggest that the average HAG level during 2007 was in the region of £61,000 compared to £ 65,000 in Scotland.

There is little consideration given to the requirement to deliver development for specific client groups such as the elderly or people with particular needs, or indeed rural developments, and how the costs of delivering such projects in compliance with appropriate legislation, or geographic challenges can be achieved.

"Big does not necessarily mean beautiful" – large, asset rich, national RSLs appear not to benefit from significant reductions in borrowing or efficiencies of procurement – which is at the core of the suggested model.

It should also be considered that in terms of impact throughout the housing sector that RSL sector accounts for around 5,000 new homes per annum, where the balance of the total 25,000 – 30,000 industry output is delivered by the private sector.

We would suggest that whilst there area some reasonable proposals within the consultation paper, that generally more informed and objective research is necessary across the entire sector and industry, to ensure that the outcomes desired are achievable, sustainable and cost effective.