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019
DEVANHA
BUSINESS

Our Ref: AG/AB

20th March 2008

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25 MAR 2008

Ref: 19



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Dear Madam

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

I am writing on behalf of the Board of Devanha Limited to express our serious concern with regard to the proposed changes in grant for 2008-2009.

Devanha Limited, as you will undoubtedly be aware, is a special purpose vehicle set up by the developing associations in the north east of Scotland to procure, manage and deliver a social housing programme over the next four years. We have received a programme offer of grant of £98m aimed at the delivery of 1563 affordable housing units.

Uniquely in Scotland, we have a programme stretching beyond one year and after a great deal of hard work, and many interesting challenges, we have finally begun the first two tranches of the programme.

One of the key conditions in the grant offer stretching over the three or four years of the programme, is that the assumptions used in calculating actual draw down of grant against individual projects will be based on the ruling assumptions operated by Communities Scotland (or their successors) at the relevant time. It follows therefore that any radical change in the assumptions during the programme period will have significance for all of us.

Another feature, which is perhaps unique to Devanha, is that it is providing housing for five different organisations whose internal financial structures and level of reserves vary significantly. Some are well established associations with apparently comfortable reserves who might well be able to make some form of contribution in the short term to the additional cost of development. Others however have no reserves at all and would face the possibility of requiring to meet any HAG shortfall from reserves with some considerable alarm.

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I say that because it is Devanha's general view that the modifications to the assumptions, particularly in the cost of finance and the management and maintenance allowances, diverge from reality. Our experienced development partners are already used to the concept that in order to connect up HAG standard assumptions as they currently operate with reality on the ground, they have had to make significant per unit contributions for quite some time now. Our members have variously calculated that the implementation of the proposed changes to HAG calculations will cost the associations between £5 and £10,000 per unit. We are committed to this programme and yet there are member associations within Devanha who are now seriously concerned that they may not be able to afford to meet their commitments under the programme.

This conclusion is based on the following:-

a. Private Finance

No one in Devanha is at the moment able to access finance at 5.6%. We would respectfully suggest that our view ought to be listened to. I am unaware of the basis on which you have calculated the average cost of borrowing but it is our perception that we have acquired some expertise in financial procurement over the years and while your statistics are no doubt based on genuine data, if associations such as the ones who are in membership of Devanha are not able to achieve finance at this rate, there must be many others for whom these changes will have even graver significance.

b. Management and Maintenance Allowances

Quite frankly, the existing management allowances were always inadequate. Freezing them at existing levels will simply make the situation worse.

Conclusion

I should be grateful if you would take these comments into account. I understand that most of the members of Devanha, if not them all, will be making their own observations and it is likely that they will expand on these topics in some detail.

Devanha however although not an RSL, has a unique role to play in the procurement of social housing. It was set up with great encouragement from Communities Scotland and is in many respects a unique partnership between provider and funder. We fear that the radical revisal of the basis of HAG calculations and the imposition in reality of a further burden on RSLs to make contributions to the development cost may well at least for some of the members, put the programme in jeopardy and we would urge that these changes to grant be not introduced in their present form.

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