

HOUSING INVESTMENT GUIDANCE NOTE**The Scottish
Government****To: All Registered Social Landlords****Subject: HAG Financial Appraisal****Issued by: Housing Investment Division****Ref No: HIGN 2009/02****Page: 1 of 18****Issued: 11th February
2009**

The attached guidance note tells you about updates to the standard assumptions for HAG Financial Appraisal for the remainder of this financial year and 2009/10. The allowances and interest rate assumptions are set out in this guidance, which replaces HIGN 2008/05. The information contained in this guidance note should be used for all grant approvals from **11th February 2009 until 31 March 2010**.

Queries on this guidance note should be addressed to the Grant Provider. The Grant Provider refers to the Scottish Government or (in the case of Glasgow and Edinburgh) the City Councils.

This guidance is accessible on the Scottish Government website under Topics/Built-Environment/Housing/investment/guidance notes.

**HAG FINANCIAL APPRAISAL AND RSL ALLOWANCES FOR THE
REMAINDER of 2008/09 and 2009/10**

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PART ONE: HAG FINANCIAL APPRAISAL

1.1 The following standard assumptions will be used by the Grant Provider when approving applications for Housing Association Grant (HAG) from 11th February 2009.

Voids

1.2 The standard assumed voids level will be 1% of the gross rental income, inclusive of any allowance for bad debts.

Allowances

1.3 Development allowances have been uplifted by 3% from the levels in HIGN 2008/05 and are detailed in Appendix 1.

1.4 Management and maintenance allowances have been uplifted by 3% from the levels in HIGN 2008/05 and are set out in Appendices 3 and 4.

1.5 Major repairs: The standard assumed major repairs sinking fund provision is set out in Appendix 5.

Private finance

1.6 Interest rate: The long term interest rate assumed will be 6.5%, which includes a margin to cover all finance costs incurred in raising finance. In particular this margin provides for the cost of arrangement fees, administration fees and valuation fees specifically incurred in raising finance and deemed to be issue costs as defined in FRS4 – Capital Instruments.

1.7 Inflation rate: The standard assumed inflation rate used to calculate the deferral amount in the private finance factor will be 2.75%.

1.8 Private finance factors:

Rental Income Factor: Rental income will be assumed to increase annually by R.P.I. + 1%. The resultant income factor is therefore 19.7746

Costs Factor: Management, maintenance and major repairs will be assumed to increase in line with inflation. The resultant cost factor is therefore 17.5689

Private finance will be calculated by multiplying the total operating costs by the costs factor and subtracting this result from the net rental income multiplied by the income factor. The private finance figure is subtracted from total scheme costs and unless other funding sources are available – the difference will be the HAG required.

Worked Example

This example is based on a new build project of 10 rented units by a registered social landlord with stock of 501 – 1000 units, due for completion in 2010/11.

Scheme costs	£
Acquisition	150,000
Works	800,000
Fees	60,000
Other Costs	83,000
Development allowances	30,978
Total costs	£1,123,978

Operating Income

Rental Income (based on 2010/11 rents say £3,120 x10)	31,200
Less Voids (31,200 x 0.01)	312
Net Rental Income	£30,888

Operating Costs

Management Allows. (343 x 10 x1.0275)	3,524
Maintenance Allows. (464 x 10 x 1.0275)	4,768
Major Repairs (750,000 x .008) restricted to £525 x 1.0275)	5,394
Costs	£13,686

Private finance

		£
Income x rental income factor	30,888 x 19.7746	£610,797
Minus costs x costs factor	13,686 x 17.5689	£240,453
	Private finance	£ 370,344

HAG

Total scheme costs		1,123,978
Less private finance		370,344
	HAG	£ 753,634

PART TWO: DEVELOPMENT ALLOWANCES

What they are for

2.1 Development allowances are paid to cover costs incurred by you in devising and implementing development projects. They are part of the overall capital costs of the project, and are therefore included in the calculation of HAG.

2.2 Development allowances apply to all projects in receipt of HAG approval.

2.3 Development allowances are designed to fit the range of development activities undertaken by you and supported by the Grant Provider.

How allowances are calculated

2.4 The system is generally based on:

- assumed fixed administrative costs **per project**;
- assumed additional costs **per new/ improved house**; and
- assumed additional costs for '**complexity factors**' which may apply (covering for example dealing with existing tenants, certain types of particular needs provision and home ownership initiatives).

2.5 In addition to projects which will provide new or comprehensively improved homes, development allowances cover other activities such as the Mortgage to Rent scheme, stage 3 adaptations, environmental improvements and purchasing housing 'off the shelf'.

2.6 Appendix 1 sets out the updated development allowances with accompanying explanatory notes.

2.7 A worked example of a development allowances calculation is provided.

Procedures for payment

2.8 For new build and rehabilitation projects which receive HAG/Acquisition approval, grant will be released as follows:

- 50% of the total estimated development allowances for the project covered by the HAG/Acquisition approval (whether development in a single phase or in multiple phases is intended) will be payable on acceptance of HAG/Acquisition approval **up to a maximum of £50,000**;

- 100% of the total estimated development allowances for the project calculated at HAG/Tender stage less previous payments will be payable on acceptance of HAG/Tender approval;

2.9 For other development activities, payment will be made following grant approval at tender or equivalent stage.

APPENDIX 1: DEVELOPMENT ALLOWANCES from 11th February 2009 until 31 March 2010

Description of activity	Development allowance	
	£	(VAT enhanced £)
Provision of new/ improved houses by new build or rehabilitation/ conversion		
Allowance per project	£13,827	(£15,555)
Allowance per new/ improved unit (or hostel bedspace)	£ 691	(£778)
Complexity Factors:		
Remote locations (per project): lower	£2,765	(£3,111)
Remote locations (per project): higher	£5,530	(£6,223)
Particular needs allowance per unit/ hostel bedspace	£ 691	(£ 778)
Sitting tenant allowance	£1,108	(£1,237)
New supply shared equity per unit	£1,659	(£1,742)
Shared ownership per unit	£1,659	(£1,742)
Improvement for sale per unit	£1,659	(£1,742)
Original open market shared equity pilot per unit	£1,659	(£1,742)
Other development activities:		
Mortgage to Rent scheme per completed case	£900	(£1,013)
Shared ownership staircasing	£492	-
Right to buy and voluntary sales	£1037	-
Furniture grants administration (SHGN 97/18)	£282	-
Minor works (stage 3 adaptations and demolitions)	10% of works costs	11.26% of works costs
Environmental improvement schemes carried out on separate contracts:		
up to £100,000	3% of works min £1,000	3.38% of works min £1,126
£100,000 - £400,000	2% of works min £3,000	2.25% of works min £3,377
over £400,000	1% of works min £8,000	1.12% of works min £9,000
Environmental improvement schemes included in housing development	1% of works	1.12% of works

Explanatory notes

Allowance per project

Payable for all new build, rehabilitation and conversion schemes, and for new supply shared equity 'off the shelf' acquisitions where the scheme is five or more units. For new supply shared equity 'off the shelf' acquisitions of less than five units the allowance will be abated at the discretion of the Grant Provider. **It is not available for shared ownership or rental 'off the shelf' acquisitions.**

Allowance per new / improved unit

Payable for every house or hostel bedspace in all new build, rehabilitation and conversion schemes and for 'off the shelf' acquisitions. In rehabilitation or conversion schemes units are measured 'post-improvement'.

Complexity factors:

Remote locations

An additional flat rate is payable for new build, rehabilitation and conversion schemes. The eligible areas based on local government boundaries are:

- Shetland, Orkney, Western Isles, Highland (Caithness, Sutherland, Wester Ross, Skye and Lochalsh, Lochaber), Argyll and Bute, and North Ayrshire (Arran and Cumbrae).

Within these eligible areas the Grant Provider has discretion to approve the higher amount in particularly remote areas and may take account of the registered social landlord's operational base in using this discretion. This additional rate is not payable for 'off the shelf' acquisitions.

Particular needs

Payable for units (including 'off the shelf') which house client groups prioritised by Councils/ Health Boards within agreed community care plans **and** which involve significant liaison with other agencies and/ or client representative groups on special design features.

Elderly sheltered and amenity and barrier free housing will not be eligible unless the above criteria also apply.

Sitting tenants

Payable for each existing house tenancy in a building acquired for rehabilitation, conversion or replacement – measured at the date of entry.

New supply shared equity

Payable on units (including 'off the shelf') approved for new supply shared equity.

Shared ownership

Payable on units (including 'off the shelf') approved for shared ownership.

Improvement for sale

Payable per unit approved for improvement for sale.

'Hybrid' new supply shared equity, shared ownership or rent schemes

If a scheme is approved as a 'hybrid' between traditionally developed and 'off the shelf' then the Grant Provider may use its discretion in determining an appropriate development allowance between the levels which would apply in either case.

Original open market shared equity pilot

Payable on each completed purchase. (The Grant Provider will also reimburse legal and administration costs for each application that reaches passport approval stage but fails to result in a purchase, up to a maximum of £1,659 per application.)

(Separate arrangements are in place to reimburse administration and legal costs for the current open market shared equity pilot scheme.)

Other development activities

Mortgage to Rent scheme

Payable on each completed Mortgage to Rent case to assist with legal and administration costs. (Where a Mortgage to Rent case is aborted before settlement, the Grant Provider will reimburse legal and administration costs up to a maximum of £750, and will also meet the actual cost of gas and electricity safety checks.)

Minor works

Examples of minor works are stage 3 adaptations and demolitions (where demolition is carried out as a separate contract). The amount payable will be 10% of works cost. An allowance may be payable if the Grant Provider agrees to provide HAG for a major repairs project. There is no set amount or calculation. It will be discretionary on the part of the Grant Provider, but should not exceed 10% of works cost.

Environmental improvement schemes

If the Grant Provider has agreed to environmental improvement work being carried out as a separate contract, the levels shown on page 7 will apply. If environmental improvement works are carried out as part of a new build, rehabilitation or conversion project then only the cost of any works outwith the housing curtilage will be reckonable in calculating the development allowance due. For example, works to front gardens are excluded: streetscape and works to public open space are included.

APPENDIX 2: DIRECT COSTS EXCLUDED FROM DEVELOPMENT ALLOWANCES

The following costs should be treated as separately identifiable direct costs.

Decant costs per each move required (currently payable from decanting allowance):

- furniture removal;
- telephone connections;
- electricity connections;
- gas connections;
- mail redirection; and
- any other direct decant-related costs which may be agreed by the Grant Provider.

Low cost home ownership actual marketing costs in pre-agreed locations, where these exceed the notional £1042 per unit incorporated for marketing within the £1,659 complexity factor.

The following will continue to be treated as direct costs:

- site security;
- rent loss;
- disturbance; and
- clerk of works.

In all the above cases, the costs allowed will be agreed actual costs, and will be added to other approved capital costs for HAG calculation purposes.

DEVELOPMENT ALLOWANCES: EXAMPLE

A registered social landlord acquires a block of 10 flats (50% tenanted) in a remote rural area. It proceeds to demolish these and (under the same contract) build eight general needs houses, two of which are for shared equity. The registered social landlord is not buying services from a VAT registered agent.

Flat rate per project	£13,827
Allowance per unit (8 units @ £691 per unit)	£ 5,528
Remote location (assume standard rate)	£ 2,765
Sitting tenants (5 units @ £1,108 per unit)	£ 5,540
New supply shared equity (2 units @ £1,659 per unit)	£ 3,318
	£30,978

Payment of allowances will be as follows:

50% on acceptance of the HAG/Acquisition approval	£15,489
50% on acceptance of the HAG/Tender approval	£15,489
	£30,978

PART THREE: MANAGEMENT AND MAINTENANCE ALLOWANCES

What they are for

3.1 Management and maintenance allowances are assumed annual operating costs incurred by registered social landlords following the construction or rehabilitation of housing for rent. They are intended to meet the cost of housing management and reactive and cyclical maintenance. A more detailed definition of reactive and cyclical maintenance is contained in SHGN 92/01.

3.2 These allowances are designed with the aim of enabling registered social landlords, whatever their size or type, to manage and maintain new build or rehabilitated housing in accordance with published performance standards.

Management and maintenance allowances

3.3 The management and maintenance allowances apply to all projects receiving HAG approval from 11th February (subject to paragraph 3.5 below). In accordance with SHGN 95/18, both management and maintenance allowances and rental income should be projected to the year of planned completion.

3.4 Details of the management and maintenance allowances are set out in Appendix 3 attached. Guidance on the calculation of stock in management (in order to determine the relevant management allowance band) is provided at the end of this Appendix.

Hostels and cluster flats

3.5 Hostels and certain aspects of cluster flats continue to be treated separately. The separate provisions previously described in SHGN 94/05 will be continued. These arrangements are attached in Appendix 4 for ease of reference.

**APPENDIX 3: MANAGEMENT AND MAINTENANCE ALLOWANCES
from 11th February 2009 until 31st March 2010**

	Allowance	
New build – management:	(VAT enhanced)	
Up to 250 units	£396	(£447)
251-500 units	£362	(£407)
501-1000 units	£343	(£385)
1001-2500 units	£321	(£362)
2501-5000 units	£300	(£338)
over 5000 units	£278	(£312)
Maintenance (reactive and cyclical):	£464	(£470)
Total management and maintenance:		
Up to 250 units	£860	(£917)
251-500 units	£826	(£877)
501-1000 units	£807	(£855)
1001-2500 units	£785	(£832)
2501-5000 units	£764	(£808)
over 5000 units	£742	(£782)
Rehabilitation - management:		
Up to 250 units	£396	(£447)
251-500 units	£362	(£407)
501-1000 units	£343	(£385)
1001-2500 units	£321	(£362)
2501-5000 units	£300	(£338)
over 5000 units	£278	(£312)
Maintenance (reactive and cyclical):	£805	(£818)
Total management and maintenance:		
Up to 250 units	£1,201	(£1,265)
251-500 units	£1,167	(£1,225)
501-1000 units	£1,148	(£1,203)
1001-2500 units	£1,126	(£1,180)
2501-5000 units	£1,105	(£1,156)
over 5000 units	£1,083	(£1,130)

Calculation of units in management for management allowance purposes:

- (i) both new build and rehabilitated units are included;

- (ii) units acquired through stock transfers and not the subject of a specific HAG commitment (see SHGN 94/08) are **included** if additional to (i) above;
- (iii) hostel bedspaces are counted as units;
- (iv) shared equity units are **excluded**;
- (v) shared ownership units are **excluded**;
- (vi) unimproved units are **excluded** (but see (ii) above); and
- (vii) the point of measurement is at tender approval stage and **includes** the project under consideration.

**APPENDIX 4: MANAGEMENT AND MAINTENANCE ALLOWANCES:
HOSTELS AND CLUSTER FLATS from 11th February
2009 until 31st March 2010**

(A) HOSTELS **Sum (VAT enhanced)**

**Management:
New build and rehabilitation**

(a) basic per bedspace	£ 277	(£ 312)
(b) warden cost per bedspace or warden's cost per hostel (whichever is greater)	£ 642 £11,323	(£ 723) (£12,737)

Maintenance

(a) new build per bedspace	£ 368	(£ 414)
(b) rehabilitation per bedspace	£ 531	(£ 596)

(B) CLUSTER FLATS

Management and maintenance

The management and maintenance allowances will apply (see Appendix 3) except where each occupant has a separate tenancy agreement, in which case a management allowance per occupant of £277 (£312 VAT enhanced) will apply.

(C) FURNITURE ALLOWANCES

Hostels and cluster flats	£ 783
Sheltered housing (per square metre of floor space of common room and guest rooms)	£ 94

PART FOUR: MAJOR REPAIRS SINKING FUND PROVISIONS

What they are for

4.1 Major repairs sinking fund provisions are required to meet the expected cost of future major repairs and renewals over the lifespan of newly built or rehabilitated properties. Major repairs HAG is not available for projects approved after 30 September 1989.

Major repairs sinking fund provisions

4.2 The major repairs sinking fund provisions apply to all projects receiving HAG approval. Details are attached in Appendix 5.

**APPENDIX 5: MAJOR REPAIRS SINKING FUND PROVISIONS from
11th February 2009 until 31st March 2010**

New build:

0.8% of approved works only cost, up to a maximum of £525 per unit
(averaged per project)

Rehabilitation:

0.9% of approved works only cost (excluding VAT), up to a maximum of
£590 per unit (averaged per project)

Rental 'off the shelf':

- a) Properties built (completed) within the past 10 years: 0.8% of a notional works only cost, calculated as 80% of the approved purchase price (up to a maximum of £525 per unit).
- b) Properties built (completed) over 10 years ago: 0.9% of a notional works only cost, calculated as 80% of the approved purchase price (up to a maximum of £590 per unit).