

**HOUSING INVESTMENT GUIDANCE NOTE**

The Scottish  
Government

**To: All Registered Social Landlords (RSLs)**

**Subject: National Housing Association Grant (HAG) Subsidy Target (HST) Benchmark**

**Issued by: Housing Investment Division (HID)**

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This Guidance Note

- Explains the application of the HAG Subsidy Target regime as outlined in the Housing Association Grant Procedures Guide.
- Explains the National HST Benchmark of **£75,000** against which individual projects (or Route 1 programmes) will be assessed for the remainder of this financial year.
- Contains, in the attached excel workbook, the data and calculations used in obtaining the new National HST Benchmark

This Guidance is related to, and complements, HIGN 2009/02 – HAG Financial Appraisal.

This Guidance comes into effect immediately; (implementation date 16<sup>th</sup> February 2009) and supersedes HIGN 2008/08. Guidance will be reviewed early in 2009/10 based on out-turn approvals for 2008/09.

If you have any questions about this Guidance Note, you should contact the Grant Provider (HID) or the relevant local authority responsible for managing development funding.

This guidance is accessible on the Scottish Government website under <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/guidancenotes>

## Scottish Government's HAG Procedures HAG Subsidy Targets

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## Introduction

1. Under the HAG Procedures Guide, each individual project (or Route 1 programme) should be set a HST at Acquisition (or SDFP) stage. These HSTs are the required amount of HAG subsidy per unit, expressed as a 3 Person, full rent equivalent.
2. The Registered Social Landlord (RSL) proposes its own HST for a project, which the Grant Provider then appraises. The primary appraisal test is to compare with the top of the bottom third of approved projects for comparable provision (of which more later). This figure is known as the HST Benchmark. Should a proposed HST fall below this Benchmark then the project will normally be the subject of streamlined appraisal and approval.
3. The basic premise is that, if a project requires below a certain level of HAG, then, by definition, it represents good Value for Money (VFM) to the taxpayer. If not, then a more detailed appraisal is warranted to establish the reasons for the level of grant required and ensure VFM.
4. Whilst the term HAG is used, all public sector funding streams must be taken into consideration, both in setting the Benchmark and appraisal of proposed HSTs. This is because the VFM to the public purse must be considered.
5. This document summarises the processes and data used by the Scottish Government in compiling the HST Benchmark, and how it should be applied to the appraisal process of individual projects and Route 1 programmes.

## National HST Benchmark

6. As previously, a national HST benchmark is being used instead of a set of individual geographically specific benchmarks. This is because we want greater consistency and transparency in the appraisal of HAG. We also wish to align HSTs Benchmarks with our requirement for efficiency savings in order to deliver the number of new homes required.
7. The detailed calculations (see attached excel workbook) produce a HST Benchmark of £75,093, which has been rounded off to give the **National HST Benchmark of £75,000 from 16 February 2009.**
8. It is accepted that some projects, e.g. in remote rural areas, are unlikely to be deliverable at published HST Benchmark levels. Projects which do not meet HST Benchmarks will be subject to more detailed scrutiny at a local level.

## **Benchmarking at the First Third**

9. According to the HAG Procedures, negotiations between the Grant Provider and RSL in respect of HSTs for projects and programmes will use, as their starting point, “the subsidy from the relevant data set which represents the top of the bottom quartile of the figures ranked with subsidy shown lowest to highest”. To enable a healthy level of streamlining, the Benchmark has been set meantime at the top of the bottom third of projects.
10. Failure to meet this primary appraisal test does not mean that projects will not receive funding approval. It simply means that such a project would be less likely to be the subject of very streamlined procedures. Proposed HSTs which do meet the Benchmark should be accepted without further scrutiny (but certain information is still essential for data-capture requirements, including the HAG Tender Return, see HIGN 2008/07).

## **Time Parameters**

11. The HAG Procedures Manual states that time parameters for the data base for this test should normally be the previous financial year or 12 months. Given that the HST Benchmark is now being set nationally (giving a large database), the mid-year nature of this adjustment to Benchmark, and the size of the database; the available data for the first 9 months of this financial year has been used.

## **Projects / Exclusions**

12. All new build for rent projects appraised based on standard HAG appraisal methodology are included in a HST Benchmark calculation, other than certain ‘rogue’ projects which are excluded from a data set. The criteria for a ‘rogue’ project is a project that has a particularly high level of particular needs provision resulting in abnormal public sector contribution.
13. The thresholds that are set are the extremes of public sector requirement of any HAG funded housing that does not provide any housing other than ‘mainstream’. Put simply, the purely ‘mainstream’, or general needs, projects that are the least and most expensive (in public subsidy terms) set the limits. Any project outwith these parameters is considered a ‘rogue’ project and is excluded from the database.
14. There are no such projects in this particular data set.

## **Calculation of HST Benchmark**

15. The calculation of HST Benchmark has been carried out as follows: -
16. The cost of all new build rent projects approved under standard HAG in the first 9 months of this financial year, for which data is available, has been updated to express the cost in terms of estimated cost levels of the coming financial year (see below) and in terms of a standardised 3 Person equivalent (also see below).
17. From that cost is deducted the Private Finance available; based on the standard Financial Appraisal assumptions (see HIGN 2009/02) and the assumed standard 3 Person equivalent rent of £3,224 at 2009/10 prices.
18. The resultant figure is the HAG cost of the project.
19. The HST Benchmark is then set at the level of the most expensive (in HAG terms) project in the lowest third of all projects.

## **Adjustment Factors**

20. Adjustment factors have been applied to the historic cost data. These are to take into account the increase in costs from the tender date, with an adjustment to allow for the estimated cost variances in the coming year.
21. Normally the assumed construction cost increase, used as a proxy for all cost increases, is based on the average Housing Tender Price Index (HTPI) of the last 3 years. However the HTPI has been flat over the last 3 quarters, and the BCIS (the national Building Cost Information Service) is predicting a 10% fall in tender prices. For these reasons, and given the current economic climate, a 0% increase in costs has been assumed for this short term adjustment to HST Benchmark.

22. Total costs have been updated per the following table:

**Costs Inflation Figures - Based on HTPI**

CalendarYear	Calendar Quarter	HTPI	Average HTPI	Annual Increase	Base to 09/10
2007/2008	Q2	274	280.00	8.74%	106.39%
	Q3	280			104.11%
	Q4	282			103.37%
	Q1	284			102.64%
2008/2009	Q2	289	291.50	4.11%	100.87%
	Q3 provisional	293			99.49%
	Q4 provisional	292			99.83%
	Q1 estimate	292			99.83%
<b>Assumption</b>			<b>291.50</b>	<b>0.00%</b>	

## Private Finance

23. As described above, the assumed Private Finance has been based on HIGN 2009/02 and the assumed 3P, 2 Bed rent. The details are: -

### Private Finance

Average 3P Rent		3,224	
Voids	1.00%	<u>32</u>	
Nett Rent		3,192	
Private Finance Multiplier		<u>19.7746</u>	
Gross Income		<u>63,121</u>	63,121
Management Allowances		343	
Maintenance Allowances		464	
Major Repairs		<u>525</u>	
Costs		1,332	
Costs Multiplier		<u>17.5689</u>	
Gross Costs		<u>23,402</u>	23,402
Private Finance			<u>39,719</u>

## Translating to a 3-Person Equivalent

24. On average, developments of smaller units are less expensive per unit than developments of larger units, but more expensive per bedspace. In order to remove the effect that this has on the Benchmark and to make them applicable to all sizes of houses, we have converted the information from all of the projects into a 3-person equivalent. The calculation for carrying out this conversion is appended along with data converted and ranked, as detailed above on a per unit basis.

25. RSLs will be able, by applying this calculation to convert subsidy for their own proposed projects into the 3-person equivalent.