

HOUSING INVESTMENT GUIDANCE NOTE

The Scottish
Government

To: All Registered Social Landlords (RSLs)

Subject: National HAG Subsidy Target Benchmark

Issued by: Housing Investment Division

Ref No: HIGN 2009/06

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Issued: May 2009

This Guidance Note:

- explains the application of the HAG Subsidy Target (HST) regime as outlined in the Housing Association Grant Procedures Guide;
- explains the National HST Benchmark of **£74,000** against which individual projects (or Route 1 programmes) will be assessed in 2009/10; and
- 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 and supersedes HIGN 2009/03.

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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[HAG Benchmarking Data Tables](#)

Table 1 – National HST Benchmark

Table 2 – 3 Person Equivalent Conversion Factors

Introduction

1. Under the Housing Association Grant Procedures Guide, each individual project (or Route 1 programme) is set a HAG Subsidy Target (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 quartile 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 Affordable Housing Investment Programme funding streams must be taken into consideration for appraisal of proposed HSTs. This is because the VFM to the public purse must be considered.
5. This Guidance 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. 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 HST 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) produced a HST Benchmark of £74,225 which has been rounded off to give the **National HST Benchmark of £74,000 for 2009/10.**
8. It is accepted that some projects, for example those 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 Housing Association Grant Procedures, negotiations between the Grant Provider and RSL in respect of HSTs for projects and Route 1 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 was subsequently changed to the top of the bottom third of projects. This approach has been continued for 2009/10.
10. Failure to meet this primary appraisal test does not mean that projects will not receive funding approval. It simply means that projects 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 Housing Association Grant Procedures state that time parameters for this test should normally be the previous financial year or 12 months. Given that the HST Benchmark is now being set nationally, that timescale gives a very large data set which is more than adequate for the purpose, and so the last full financial year has been used.

Projects / Exclusions

12. All new build for rent projects appraised based on standard HAG appraisal methodology are included in the HST Benchmark calculation, other than certain statistically ‘rogue’ projects which have been excluded from the data set. These projects are listed at the bottom of Table 1. The criteria for a ‘rogue’ project is a project that has a unusually high level of particular needs provision resulting in abnormal HAG contribution.
13. The thresholds that have been 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.

Calculation of HST Benchmark

The calculation of HST Benchmark has been carried out as follows: -

14. The cost of all new build rent projects approved under standard HAG in the last financial year has been updated to express the cost in terms of estimated cost levels of the current financial year (see below) and in terms of a standardised 3 Person equivalent (also see below).
15. From that cost is deducted the Private Finance available. This is 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.
16. The resultant figure is the HAG cost of the project.
17. 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

18. Adjustment factors have been applied to the historic cost data. These are to take into account the changes in costs from the tender date, plus an allowance for anticipated change in tender prices for the current financial year.
19. Independent commentators are generally predicting a fall in tender prices. In particular, the Building Cost Information Service has predicted a 10% drop in tender prices over 2009/10. At this stage we have assumed a drop of only 2.5% - but will keep this under review.

Costs Inflation Figure - Based on Housing Tender Price Index (HTPI) - Financial Years

Calendar Year	Calendar Quarter	HTPI	Average HTPI	Annual Change	Base to 2009 /2010
2008	Q2	289	288.25		97.25%
	Q3	289			97.25%
	Q4 provisional	289			97.25%
2009	Q1 provisional	286			98.27%
Financial Year 2009/2010 Assumption			281.04	-2.50%	

20. We will maintain review of the HTPI on a quarterly basis and, if there is significant change in tender price levels, we will adjust the HST Benchmark accordingly.

Rent Level Assumptions and Private Finance

21. As described above, the assumed Private Finance has been based on HIGN 2009/02 and the assumed 3 person, 2 bedroom rent.
22. As detailed in HIGN 2009/02 we wish to ensure fairness and consistency in the assumptions used to calculate HAG in line with both efficiency and affordability considerations. For the purposes of calculating HAG for tenders appraised during financial year 2009/10 we will use, as a minimum, rents in line with relevant comparators of £3,224 per annum (3 person equivalent, 2009/10 base date) **OR** as per your submitted Strategy and Development Funding Plan if these are higher than the assumed minimum. Where rents exceed the assumed minimum of £3,224 by more than 5% we will ask for evidence that these are affordable.

Private Finance

Average 3 person rent		3,224	
Voids	1.00%	32	
Nett Rent		3,192	
Private Finance Multiplier		19.7746	
Gross Income		<u>63,121</u>	63,121
Management Allowances (501 – 1000 units)		343	
Maintenance Allowances		464	
Major Repairs		525	
Costs		1,332	
Costs Multiplier		17.5689	
Gross Costs		<u>23,402</u>	23,402
Private Finance			<u>39,719</u>

Translating to a 3 Person Equivalent

23. 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 HST Benchmark and to make it 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. See Table 1 for the calculation of HST Benchmark and Table 2 for the 3 person equivalent conversion factors.
24. RSLs will be able, by applying this calculation, to convert subsidy for their own proposed projects into the 3 person equivalent.