

REFERENCE:
ORGANISATION:
CATEGORY:

022
WEST OF SCOTLAND HOUSING ASSOCIATION
REGISTERED SOCIAL LANDLORD

DBM/MC

25th March 2008

Alistair Dickson
Acting Director of Investment
Communities Scotland
Highlander House
58 Waterloo Street
Glasgow
G2 7DA

Dear Alistair

**BETTER VALUE FROM HOUSING ASSOCIATION GRANT
CHANGES TO GRANT CALCULATION FROM 2008/09
RESPONSE TO CONSULTATION PAPER**

Thank you for your letter of 12th February 2008, and attached consultation paper outlining the above. The response below has been fully discussed by West of Scotland Housing Association's Corporate Management Team and, by correspondence, has been considered by the Association's Management Committee. A separate copy of this letter has been sent to Aileen Piacentini, together with the correspondent information form.

General Commentary

We were disappointed that the consultation paper was not accompanied by worked examples. Independently, we produced worked examples and also received worked examples from the SFHA on 4th March. The SFHA worked examples used a private finance factor and methodology, which they confirmed has been approved by both Communities Scotland and the Scottish Government. Effectively, this reduced the consultation period to three weeks.

West of Scotland Housing Association welcomes the re-affirmation that the Scottish Government will consult in more detail about the introduction of a competitive approach to the allocation of Housing Association Grant. We also agree that in advance of this consultation, progress in reducing the cost of subsidy per house has to be made.

Sector Financial Strength

We agree that the RSL sector collectively has considerable financial strength and there may be capacity to use existing assets and revenue streams to support greater borrowing levels. Some analysis of this would have been helpful particularly between RSLs that have ceased development activity and those that are aspiring to continue adding new homes to the stock that they manage. We suspect that the majority of sector reserves, assets and cash balances are vested in RSLs that fall into the former non developing category.

Sector Rent Levels

Remaining on the theme of developing and non developing RSLs, the proposal to calculate HAG based on rents rising annually by 1% in real terms could lead in time to quite major variations in rent levels across the sector. Clearly, therefore, with regard to unlocking the sectors' financial strength and dealing with potentially highly variable rents from one RSL to another, it is important that we are informed about what the Scottish Government's future modelling of the sector is showing.

The assertion that secure rents have risen by nearly 2% above inflation each year over the past five years requires further analysis to exclude:

1. The introduction of GHA over the period 2002/03 and 2003/04.
2. Three person (3p) equivalent rents being driven up by Communities Scotland in their HAG calculations.
3. Cost increases resulting from the introduction of the Scottish Housing Quality Standard.
4. Non developing housing associations, particularly LSVT organisations.

The foregoing may produce a different result from what we believe is raw figures quoted in the consultation document. West of Scotland Housing Association's track record on rent increases is as follows:

Year	Rent Increase
2004/05	3.7% (RPI +1%)
2005/06	4.4% (RPI + .9%)
2006/07	3.2% (RPI +1%)
2007/08	4.4% (RPI)
2008/09	4.5% (RPI +0.5%)

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For developing RSLs there would appear to be choices regarding applying the 1% rent increase in real terms. Should this be applied across all secure tenancies or applied only to schemes approved post 1st April 2008? Applied to all secure tenancies would generate additional income to address negative cashflows from post 1st April 2008 schemes (see below). However, that would also have a negative impact on Housing Benefit, year on year. Guidance in this area would be appreciated.

Voids

The proposal to reduce the void assumption from 2% to 1% is within West of Scotland Housing Association's overall figures.

Management, Maintenance and Major Repairs Allowances

No change post 1st April 2008 in the current levels of these allowances will result in greater negative cashflows from post 1st April 2008 schemes (see below). We know of no RSL that is currently operating within the set allowances. Also it is clear to this Association that maintenance costs are rising, across the full spectrum of maintenance, ahead of the rate of inflation.

Private Finance

As a result of the current and increasing uncertainties within the capital and financial markets, the proposal to maintain the average cost of RSL borrowing at 6% is welcome.

Inflation

Noted.

Financial Stability and Negative Cashflows

The proposals outlined in the consultation document will increase the private finance borrowed by West of Scotland Housing Association by 9% to 11% of total scheme costs with an equivalent drop in the HAG requirement. This will result in new schemes showing overall negative cashflows in years one through to at least eighteen.

This is significant for West of Scotland Housing Association. We are looking closely at the impact on our future scale of activity but we were unable to provide detailed comments in the three week timescale between confirmation of worked examples and the consultation deadline. Clearly, however, mixed tenure general needs houses built to a standard design using modern methods of construction will require

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to be pursued vigorously in addition to cost savings across our entire operations. Where land costs and/or conditions are problematic or there is a requirement for highly specialised special needs housing then some other form of funding to supplement HAG and private finance will require to be found.

Conclusion

I trust the foregoing is helpful. We have purposely been brief and, therefore, I would be happy to meet with yourself, or a member of your staff, to expand further on the issues we have addressed.

With kind regards.

Yours sincerely

DUNCAN MCNAUGHT
CHIEF EXECUTIVE