

RESTRICTED - COMMERCIAL

From: [redacted S.38(1)(b)]
10 June 2010

1. Minister for Housing and Communities
2. Cabinet Secretary for Health and Wellbeing

SOCIAL HOUSING PARTNERS LTD PROPOSAL FOR FINANCING AFFORDABLE HOUSING BASED ON INSTITUTIONAL INVESTMENT

Purpose

1. To advise you on progress with the proposal from Social Housing Partners Ltd (SHP) for provision of affordable rented homes. We do not recommend proceeding with this idea.

Priority

2. Routine.

Background

3. We have been working with Steven Roche for over a year as he has developed and refined a proposal for providing affordable rented homes which involves investment from Aviva. When first approached with this proposal we had hoped it would provide a route into harnessing pension fund investment, enable us to develop a workable funding model for institutional investment in affordable housing and establish a relationship with Aviva. However, Aviva's approach is typical of large pension funds, which is to work through an intermediary, so they have delegated development of the model to Steven Roche (and latterly SHP).

4. SHP is a new company established with the sole purpose of pursuing this specific proposal and work with Aviva. It has, we understand, a small amount of capital and no track record and is not currently actively trading. The main players are Steven Roche and Alistair Lindsay who worked together previously as Cantime and/or Applejak developers. Their previous expertise has been in delivery of a number of small but complex refurbishment projects in Glasgow, in several cases with GRO grant from Scottish Homes.

5. Steven Roche has been in regular contact with us over the last two years about the possibility of accessing pension funds to provide or fund affordable rented housing. The current proposal was originally supported tentatively by Aviva (and some discussion was held with Aviva present). But the links between Aviva and SHP have become increasingly unclear as discussions have progressed. Working with an established pension fund manager like Aviva and developing alternative models for institutional investment remain our goals. So we have persisted in discussions with Steven Roche and SPL even though we are increasingly unsure that Aviva retains a substantive interest in pursuing this proposal to implementation.

The Proposal

RESTRICTED - COMMERCIAL

6. The paper prepared by Steven Roche/SHP which details the proposal is set out at **Annex A**. It has taken more than a year to arrive at this position and extensive support by officials has been required in order to reach this point. Steven Roche/SHP's ideas and assumptions have gone through a number of refinements and iterations and this is the most up-to-date version of their proposal. At first sight it is attractive in financial terms when measured against our HAG subsidy target of £68,500, requiring only £60,000 grant per unit based and a 50:50 split in private finance and subsidy:

- Cost: £120,000
- Grant funding £60,000
- Pension fund investment £60,000
- Annual rent: £3,900 (future increases rpi +1%)
- Year 1 repayment to Pension fund £3,050. Payment period is 50 years and future payments would be index linked
- Importantly though there will be a requirement for this to be guaranteed by Scottish Government
- Balance (£850) retained by RSL to fund management & maintenance.

7. Our evaluation of SHP's proposal is set out at **Annex B**. Although it appears to offer a new approach to funding homes for rent and accessing pension funds we have reached the view that the potential benefits of pension fund investment (such as long term funding and potentially lower cost of funds) are not fully reflected in the proposal. Even with a headline lower grant rate it does not represent value for money because:

- The lower grant rate is due to the lower provision for running costs because future major component replacement is excluded from the assumption. This is likely to be unacceptable to housing associations.
- Comparing this proposal on a like-for-like basis with regards to construction costs, rents and future running costs (including component replacement) shows that this proposal would in fact be around £6,000 more expensive than using conventional HAG.
- Aviva has indicated (assuming they continue to be involved) that a return of around 6%-7% on their investment would be required, which is no better than conventional loans or bond finance.

RESTRICTED - COMMERCIAL

- The expectation that the Scottish Government will guarantee income to the investors will lead to a further charge on the AHIP; the guarantee appears to provide no benefit in terms of the return required. Initial work suggests this could be in the order of £3,300 per unit – which makes the proposal nearly £10,000 per unit more expensive than HAG on a like-for-like basis.

Conclusion

8. There is no advantage in pursuing this proposal as it does not offer value for money (the real amount of subsidy required is as least as much as that currently provided using the conventional HAG model). Like many such models the headline gains rely on manipulation of the basic maintenance assumptions and not on an innovative approach to financing the development. It is not a suitable basis for securing pension fund investment in affordable housing.

9. Rejecting this proposal does not prevent us considering other proposals that involve institutional investment. Nor does it hinder the Scottish Government developing future links with Aviva. The Summer Debate, and the launch of the Chartered Institute of Housing's second volume of funding options on 14 July, provide a number of opportunities for the Government to continue to promote the concept of institutional investment and seek workable proposals that include this form of funding combined with real financial innovation.

Presentation

10. Assuming Ministers agree with our recommendation not to proceed with this there should be no adverse publicity as a consequence; discussions with SHP/Steven Roche and Aviva have not been publicised. Mr Roche will be disappointed and can be expected to approach Ministers regarding this decision, but his reaction can be managed because the basis for rejecting the proposal is sound. No adverse reaction if expected from Aviva.

Recommendation

10. You are invited to:

- note our appraisal; and
- agree that we do not continue to pursue this proposal from SHP.

[redacted S.38(1)(b)]

10 June May 2010

Copy list:

DG Justice and Communities

DG Health

[redacted S.38(1)(b)]

Communications Health & Wellbeing

[redacted S.38(1)(b)]

**SOCIAL HOUSING PARTNERS LTD
PROPOSAL FOR FINANCING AFFORDABLE HOUSING BASED ON
INSTITUTIONAL INVESTMENT**

CONCEPT: *[As provided by Steven Roche/SHP]*

The proposal involves the immediate and ongoing involvement of not-for-profit Pension Fund investment in Social Housing.

The proposal considers the lifespan of new homes to be 80 years and works on the basis of a 50 year investment.

Ownership remains with Council/RSL.

Development decision making remains as is.

Management and maintenance remain unaltered.

Lettings Policy is unchanged.

The proposal takes into account current economic conditions, reflecting low interest rates and requirement of Institutions for Socially Responsible Investments.

Recent changes in the Housing Industry; the ending of Right to Buy and the Establishment of the National Housing Trust are essential components.

Whilst primarily for investment in Social Housing the proposal can meet the needs of mid-market and market rental homes.

The proposal is submitted to The Scottish Government, but with minimal modification can apply to the rest of the U.K. and beyond.

FIGURES:

Protracted discussions with Registered Social Landlords and senior civil servants have resulted in the following figures – based on an average two bedroom flatted dwelling – being appropriate:

ALL INCLUSIVE BUILDING COST: £120,000

FIRST YEARS RENTAL: £3,900

- **All other house types are allowed for by the expedient of increasing/decreasing costs being offset by increasing/decreasing rentals.**
- **Pension Funds will invest 50% of required capital; £60,000 matched by HAG input of £60,000.**
- **It is essential that rental income is “institutionalised” through the National Housing Trust or similar.**
- **It is integral that Councils/RSLs will apply all new build and EPC/Ecological requirements and maintain homes to Industry Standards.**
- **Rents are to be index linked (RPI + 1% or equivalent)**
- **Rents are to be payable on a quarterly basis commencing one quarter after Practical Completion Certificate is issued.**

- **FIGURES (continued)**
- **Tone date for payments to the Pension Fund commences three months after occupancy. This date is used when yearly timescales are discussed.**
- **Pension Funds require £3050 of the first years rent to meet their capital repayment and interest requirements.**
- **The remaining £850/annum (again index linked) is to enable The Council/RSL to meet all management, maintenance, insurance and void costs.**
- **At year 50 payment obligations to the Pension Funds cease. Discussions can take place then as to refurbish/demolish and/or redevelop with or without further investment from said Fund.**
- **Social Housing Partners Ltd. as agents promoting the proposal have undertaken research into this field over a number of years, consulting with numerous Institutions and Public Sector Housing officials.**
- **Social Housing Partners Ltd. require a fee/commission based on 0.75% of all Institutional monies invested.**

- **End of Presentation: May 2010.**

**SOCIAL HOUSING PARTNERS LTD
PROPOSAL FOR FINANCING AFFORDABLE HOUSING BASED ON
INSTITUTIONAL INVESTMENT**

Evaluation of the proposal.

This proposal requires £60k grant funding. In order to determine whether this methodology of funding represents value for money it useful to compare it against a HAG calculation using consistent assumptions. Based on the current HAG assumptions a cost of £120k and a rent of £3,900 would produce HAG of £66,700 as demonstrated below.

HAG Calculation Based on Social Housing Partners proposal Proposal

Scheme assumptions			
Scheme Costs	120,000		
Rent	3,900	75.00	per week

HAG Assumptions			
Economic Assumptions			
Interest rate	6.50%		
RPI	2.75%	Cost Factor	17.5689
Rental growth	3.75%	Income factor	19.7746
Other Assumptions			
Voids percentage	1.00%		
Management costs	322		
Maintenance costs	465		
Major repairs	527	1,314	

Results			
Total Income	76,350		
Total Cost	23,086		
Private Finance	53,264	44%	
HAG	66,736	56%	
Total	120,000		

Because of the lower level of management and maintenance allowances assumed in SPH's proposal (£850 vs £1,300), the HAG calculation appears to be £6,673 more expensive.

Whilst £850 should be sufficient to cover management and maintenance it is unlikely to be able to fund any major repairs into the future. This will be a major issue for the HA sector considering these houses are assumed to have at least an fifty year lifespan. As a sensitivity running the HAG calculation on allowances of £850 produces HAG of £58,500 which confirms it's the allowances (or lack of) that's driving the lower grant requirement in this proposal.

RESTRICTED - COMMERCIAL

It's important to note that in one of the accompanying e-mails to the main submission Steven Roche states *"With regard to RSL's concerns about their annual "allowance" - the proposal of 50% HAG allows, £850/annum. Should, for whatever reason this be deemed insufficient then an increase in HAG to 55% would release £1,100/annum and an increase to 60% HAG- £1,400/annum"*.

So, SHP would still look to the Scottish Government to provide additional grant in order to make the project acceptable to associations. At these percentage levels of subsidy the grant funding at 55% would be £66k (about the same as HAG). Grant funding at 60% would allow the same level of management and maintenance expenditure as present but at £72k. a unit would be about £6k more than funding through HAG.

The conclusion from all this analysis is that this proposal from a VFM perspective would actually be less attractive than going down the normal HAG route. The probability is that RSLs are unlikely to accept such a low level of provision for future running costs as they would be unable to fund future major component replacements and they would still look to the Government to provide additional funding. In which case a grant rate of £60k per unit is unachievable with this funding vehicle..

Further a key component of the proposal is the statement *"It is essential that rental income is "institutionalised" through the National Housing Trust or similar"* This in effect is a guarantee of the rental income by SG, potentially leading further year one charge on AHIP based on the probability of default. If we were to assume the probability of default is 1% then the charge to AHIP would be £3,300 per house based on the following calculation.

Opening payment	£3,050
Annual increase	2.75%
Number of years	50
Total rent per over period	£331,517
Probability	1%
Charge pu to AHIP	£3,315

The proposal states *"Pension Funds require £3050 of the first years rent to meet their capital repayment and interest requirements"* and SHP have clarified that future years' payments would be index linked (presumably to inflation). Assuming the same inflation rate as HAG (2.75%) the return to investors would be nearly 7.25%. Combined with a SG guarantee and compared with the current HAG assumption of a cost of funds of 6.5% this is excessive.

Conclusion

This proposal does not offer value for money when compared to HAG,. This is compounded by the fact that this proposal also would be required to be underwritten by Scottish Government resulting in a further cost to AHIP. This means that in reality this proposal is likely to cost more, not less than funding through a traditional HAG route.

CONCEPT:

The proposal involves the immediate and ongoing involvement of not-for-profit Pension Fund investment in Social Housing.

The proposal considers the lifespan of new homes to be 80 years and works on the basis of a 50 year investment.

Ownership remains with Council/RSL.

Development decision making remains as is.

Management and maintenance remain unaltered.

Lettings Policy is unchanged.

The proposal takes into account current economic conditions, reflecting low interest rates and requirement of Institutions for Socially Responsible Investments.

Recent changes in the Housing Industry; the ending of Right to Buy and the Establishment of the National Housing Trust are essential components.

Whilst primarily for investment in Social Housing the proposal can meet the needs of mid-market and market rental homes.

The proposal is submitted to The Scottish Government, but with minimal modification can apply to the rest of the U.K. and beyond.

FIGURES:

Protracted discussions with Registered Social Landlords and senior civil servants have resulted in the following figures – based on an average two bedroom flatted dwelling – being appropriate:

ALL INCLUSIVE BUILDING COST: £120,000

FIRST YEARS RENTAL: £3,900

- **All other house types are allowed for by the expedient of increasing/decreasing costs being offset by increasing/decreasing rentals.**
- **Pension Funds will invest 50% of required capital; £60,000 matched by HAG input of £60,000.**
- **It is essential that rental income is “institutionalised” through the National Housing Trust or similar.**
- **It is integral that Councils/RSLs will apply all new build and EPC/Ecological requirements and maintain homes to Industry Standards.**
- **Rents are to be index linked (RPI + 1% or equivalent)**
- **Rents are to be payable on a quarterly basis commencing one quarter after Practical Completion Certificate is issued.**

- **FIGURES (continued)**
- **Tone date for payments to the Pension Fund commences three months after occupancy. This date is used when yearly timescales are discussed.**
- **Pension Funds require £3050 of the first years rent to meet their capital repayment and interest requirements.**
- **The remaining £850/annum (again index linked) is to enable The Council/RSL to meet all management, maintenance, insurance and void costs.**
- **At year 50 payment obligations to the Pension Funds cease. Discussions can take place then as to refurbish/demolish and/or redevelop with or without further investment from said Fund.**
- **Social Housing Partners Ltd. as agents promoting the proposal have undertaken research into this field over a number of years, consulting with numerous Institutions and Public Sector Housing officials.**
- **Social Housing Partners Ltd. require a fee/commission based on 0.75% of all Institutional monies invested.**
- **End of Presentation: May 2010.**

Emails Relating to FOI Request

Document 2 – Please note that Document 7 “Cantime Proposal May 2010” was attached to this email.

From: [redacted S.38(1)(b)]

Sent: 04 May 2010 15:23

To: <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>

Cc: [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>

Subject: RE: Pension Funds: Scottish Social Housing Fund

[redacted S.38(1)(b)],

I've looked in a bit of detail at the numbers surrounding this proposal. I've compared it against HAG and tried to work out the return the pension fund investment want out of this. However the proposal is actually unclear on this.

Comparison against HAG

This proposal requires £60k HAG. Based on the current HAG assumptions a cost of £120k and a rent of £3,900 would produce HAG of £66,700. The main reason for the difference is down to the allowances for management and maintenance that have been assumed. A HAG calculation includes £1,300 for management maintenance and major repairs. Under the SHPL proposal only £850 is available to the RSL to fund future costs. Whilst £850 should be sufficient to cover management and maintenance it is unlikely to be able to fund any major repairs. This is a big issue considering these houses are assumed to have at least an fifty year lifespan.

I've ran a few scenarios, Running the HAG calc on allowances of £850 produces HAG of £58,500 which tends to confirm it's the allowances (or lack of) that's leading to the lower grant requirement. Also Steve in one of his e-mails states

"With regard to RSL's concerns about their annual "allowance" - the proposal of 50% HAG allows, £850/annum. Should, for whatever reason this be deemed insufficient then an increase in HAG to 55% would release £1,100/annum and an increase to 60% HAG- £1,400/annum". Grant funding at 55% comes out at £66k (about the same as HAG). Grant funding at 60% is about £6k more expensive at £72k.

The conclusion from all this analysis is that this proposal from a VFM perspective is not significantly more attractive than going down the normal HAG route indeed it may cost more.

Rate of return

The proposal only states

"Pension Funds require £3050 of the first years rent to meet their capital repayment and interest requirements"

Emails Relating to FOI Request

It's unclear as to whether is £3,050 fixed or whether it would increase with say inflation. If it's fixed then the rate of return being sought is 4.5%. If it's to be increased by inflation at say 2.5% then the rate of return is 7%. I suspect the latter but we should confirm this with Steve.

Other Issues

"It is essential that rental income is "institutionalised" through the National Housing Trust or similar" This suggests a guarantee of the rental income, potentially leading to a call on AHIP resources in the future and wiping out any marginal gain this method of funding may have had over traditional HAG.

Social Housing Partners Ltd. require a fee/commission based on 0.75% of all Institutional monies invested. Based on £60k per unit this works out at £450 per house. It's unclear who funds this, presumably SG in which case our £60k funding becomes that bit more expensive.

Finally

Protracted discussions with Registered Social Landlords and senior civil servants have resulted in the following figures

I think this gives a false impression that we are signed up to these numbers.

I've enclosed is the spreadsheet which details my calculations

[redacted S.38(1)(b)]

Finance Manager
Housing Investment Division
Housing & Regeneration Directorate

tel **[redacted S.38(1)(b)]**

From: **[redacted S.38(1)(b)]**

Sent: 04 May 2010 12:48

To: **[redacted S.38(1)(b)]**

Cc: **[redacted S.38(1)(b)]**

Subject: FW: Pension Funds: Scottish Social Housing Fund

[redacted S.38(1)(b)]:

Can you have first look at what this amounts to and give us all your advice?

Thanks

[REDACTED S.38(1)(B)]

From: steven roche [[mailto:\[redacted S.38\(1\)\(b\)\]](mailto:[redacted S.38(1)(b)])]

Sent: 04 May 2010 12:17

Emails Relating to FOI Request

To: [redacted S.38(1)(b)]

Subject: Pension Funds: Scottish Social Housing Fund

All,

I attach "presentation" recently forwarded to Aviva. Hard copies are in post.

Aviva remain interested but have asked that their name be removed and state that our proposal at the moment does not have their backing. We have inserted "Pension Fund" as appropriate.

The reason we are presenting at this time is because of interest in our proposals from other Institutions. I'll explain more anon but feel ,as a matter of courtesy, obliged to discuss the figures with Alistair Dickson beforehand. I spoke briefly with Alistair last week, intend meeting later this week - and shall return to you thereafter.

In addition, I have learned of objections to the proposal RSL's may have, particularly with regard to the annual maintenance allowance.

This is a concern that, if appropriate, can only be accommodated by variation of HAG input. This would, obviously, be at the discretion of ScotGov and again I'll discuss with Alistair.

Our goal is to enable the "deliverability" of a "Fund" launch of £100m in year 2011/2012. Hopefully this also meets with the objectives of The Scottish Government.

Kind Regards, Steven Roche SHPL.

Get a free e-mail account with Hotmail. Sign-up now.

This email was received from the INTERNET and scanned by the Government Secure Intranet anti-virus service supplied by Cable&Wireless Worldwide in partnership with MessageLabs. (CCTM Certificate Number 2009/09/0052.) In case of problems, please call your organisation's IT Helpdesk.

Communications via the GSi may be automatically logged, monitored and/or recorded for legal purposes.

This email has been received from an external party and has been swept for the presence of computer viruses.

Emails Relating to FOI Request

Document 3 – Please note that Document 8 “shp_proposal_2.doc” was attached to this email.

From: steven roche <[redacted S.38(1)(b)]>
Sent: 04 May 2010 12:17
To: [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>
Subject: Pension Funds: Scottish Social Housing Fund

All,

I attach "presentation" recently forwarded to Aviva. Hard copies are in post.

Aviva remain interested but have asked that their name be removed and state that our proposal at the moment does not have their backing. We have inserted "Pension Fund" as appropriate.

The reason we are presenting at this time is because of interest in our proposals from other Institutions. I'll explain more anon but feel ,as a matter of courtesy, obliged to discuss the figures with Alistair Dickson beforehand. I spoke briefly with Alistair last week, intend meeting later this week - and shall return to you thereafter.

In addition, I have learned of objections to the proposal RSL's may have, particularly with regard to the annual maintenance allowance.

This is a concern that, if appropriate, can only be accommodated by variation of HAG input. This would, obviously, be at the discretion of ScotGov and again I'll discuss with Alistair.

Our goal is to enable the "deliverability" of a "Fund" launch of £100m in year 2011/2012. Hopefully this also meets with the objectives of The Scottish Government.

Kind Regards, Steven Roche SHPL.

Get a free e-mail account with Hotmail. Sign-up now.
This email was received from the INTERNET and scanned by the Government Secure Intranet anti-virus service supplied by Cable&Wireless Worldwide in partnership with MessageLabs. (CCTM Certificate Number 2009/09/0052.) In case of problems, please call your organisation's IT Helpdesk.
Communications via the GSi may be automatically logged, monitored and/or recorded for legal purposes.

This email has been received from an external party and

Emails Relating to FOI Request

has been swept for the presence of computer viruses.

Emails Relating to FOI Request

Document 4

From: [redacted S.38(1)(b)]

Sent: 06 May 2010 16:08

To: [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>

Cc: [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>

Subject: [redacted S.38(1)(b)]RE: Pension Funds: Scottish Social Housing Fund

...whose breaking point? We've been round the houses countless times on this and are no nearer to anything which looks attractive (in fact the coyness of Aviva which I can well understand reinforces the case for dropping this).

Rachel: are you up-to-speed on the Minister's engagement with his Welsh counterpart on accessing pension funds? This sounds like a far more likely avenue than accessing pension funds via this particular intermediary.

Happy you come along Alex if you're content that we just ask some questions and do not offer specific encouragement to develop or rework the proposals!

If you think I'm being unduly negative however and that this is holding back a potentially good deal for SG I'd also be very happy if you took this off my hands altogether. Your choice!

[REDACTED S.38(1)(B)]

From: [redacted S.38(1)(b)]

Sent: 06 May 2010 15:49

To: [redacted S.38(1)(b)]; [redacted S.38(1)(b)]

Cc: [redacted S.38(1)(b)]

Subject: Re: Pension Funds: Scottish Social Housing Fund

[redacted S.38(1)(b)]

Seems fine. I know a wee bit more than what his presentation says. The required rate of return is constant throughout the 50 years.

My understanding is that Aviva will come in with funds so long as they don't find a home for their money with English RSLs.

If I understand it correctly, institutionalising the rental income means guaranteeing the Pension fund a rate of return. But we should ask him to be sure.

I'd be happy to join you and Dave at the meeting. My view is that we need to test this to breaking either now or in the future.

How does this sit with the proposal in the consultation document?

[redacted S.38(1)(b)].

Emails Relating to FOI Request

From: [redacted S.38(1)(b)]
To: [redacted S.38(1)(b)]
Cc:[redacted S.38(1)(b)] [redacted S.38(1)(b)]
Sent: Thu May 06 15:15:43 2010
Subject: RE: Pension Funds: Scottish Social Housing Fund
Steven is looking for a meeting next week to discuss the proposal.

While there are one or two questions we could ask if we met there is absolutely nothing to suggest that we will end up with a convincing case for taking forward this proposal (in comparison with other mechanisms) and nothing to suggest there is actually any funding behind it.

I guess what we should probably do is

- have a meeting ([redacted S.38(1)(b)] and myself would suffice unless others are more optimistic about the proposal)
- ask about what the required return is beyond year 1; what backing he has; what the new company actually is; and what's meant by institutionalising the rental income
- say we'll inform Ministers of the proposal
- minute Ministers to recommend there is no substance in this and we take no further (that's assuming this remains the view after the meeting)
- inform Steven Roche
- if we at some future date get something new from Steven that actually seems to have some mileage we should pursue of course, but otherwise it seems to me further dialogue will be fruitless

How does this grab you all?

[REDACTED S.38(1)(B)]

From: [redacted S.38(1)(b)]
Sent: 04 May 2010 15:23
To: [redacted S.38(1)(b)]
Cc: [redacted S.38(1)(b)]
Subject: RE: Pension Funds: Scottish Social Housing Fund

[redacted S.38(1)(b)]

I've looked in a bit of detail at the numbers surrounding this proposal. I've compared it against HAG and tried to work out the return the pension fund investment want out of this. However the proposal is actually unclear on this.

Comparison against HAG

This proposal requires £60k HAG. Based on the current HAG assumptions a cost of £120k and a rent of £3,900 would produce HAG of £66,700. The main reason for the difference is down to the allowances for management and maintenance that have been assumed. A HAG calculation includes £1,300 for management maintenance and major repairs. Under the

Emails Relating to FOI Request

SHPL proposal only £850 is available to the RSL to fund future costs. Whilst £850 should be sufficient to cover management and maintenance it is unlikely to be able to fund any major repairs. This is a big issue considering these houses are assumed to have at least an fifty year lifespan.

I've ran a few scenarios, Running the HAG calc on allowances of £850 produces HAG of £58,500 which tends to confirm it's the allowances (or lack of) that's leading to the lower grant requirement. Also Steve in one of his e-mails states

"With regard to RSL's concerns about their annual "allowance" - the proposal of 50% HAG allows, £850/annum. Should, for whatever reason this be deemed insufficient then an increase in HAG to 55% would release £1,100/annum and an increase to 60% HAG- £1,400/annum". Grant funding at 55% comes out at £66k (about the same as HAG). Grant funding at 60% is about £6k more expensive at £72k.

The conclusion from all this analysis is that this proposal from a VFM perspective is not significantly more attractive than going down the normal HAG route indeed it may cost more.

Rate of return

The proposal only states

"Pension Funds require £3050 of the first years rent to meet their capital repayment and interest requirements"

It's unclear as to whether is £3,050 fixed or whether it would increase with say inflation. If it's fixed then the rate of return being sought is 4.5%. If it's to be increased by inflation at say 2.5% then the rate of return is 7%. I suspect the latter but we should confirm this with Steve.

Other Issues

"It is essential that rental income is "institutionalised" through the National Housing Trust or similar" This suggests a guarantee of the rental income, potentially leading to a call on AHIP resources in the future and wiping out any marginal gain this method of funding may have had over traditional HAG.

Social Housing Partners Ltd. require a fee/commission based on 0.75% of all Institutional monies invested. Based on £60k per unit this works out at £450 per house. It's unclear who funds this, presumably SG in which case our £60k funding becomes that bit more expensive.

Finally

Protracted discussions with Registered Social Landlords and senior civil servants have resulted in the following figures

I think this gives a false impression that we are signed up to these numbers.

I've enclosed is the spreadsheet which details my calculations

Emails Relating to FOI Request

[redacted S.38(1)(b)]

Finance Manager
Housing Investment Division
Housing & Regeneration Directorate

tel **[redacted S.38(1)(b)]**

From: **[redacted S.38(1)(b)]**
Sent: 04 May 2010 12:48
To: **[redacted S.38(1)(b)]**
Cc: **[redacted S.38(1)(b)]**
Subject: FW: Pension Funds: Scottish Social Housing Fund

[redacted S.38(1)(b)]:
[Can you have first look at what this amounts to and give us all your advice?](#)
Thanks
[REDACTED S.38(1)(B)]

From: steven roche [[mailto:\[redacted S.38\(1\)\(b\)\]](mailto:[redacted S.38(1)(b)])]
Sent: 04 May 2010 12:17
To: **[redacted S.38(1)(b)]**
Subject: Pension Funds: Scottish Social Housing Fund

All,

I attach "presentation" recently forwarded to Aviva. Hard copies are in post.

Aviva remain interested but have asked that their name be removed and state that our proposal at the moment does not have their backing. We have inserted "Pension Fund" as appropriate.

The reason we are presenting at this time is because of interest in our proposals from other Institutions. I'll explain more anon but feel ,as a matter of courtesy, obliged to discuss the figures with Alistair Dickson beforehand. I spoke briefly with Alistair last week, intend meeting later this week - and shall return to you thereafter.

In addition, I have learned of objections to the proposal RSL's may have, particularly with regard to the annual maintenance allowance.

This is a concern that, if appropriate, can only be accommodated by variation of HAG input. This would, obviously, be at the discretion of ScotGov and again I'll discuss with Alistair.

Our goal is to enable the "deliverability" of a "Fund" launch of £100m in year 2011/2012. Hopefully this also meets with the objectives of The Scottish Government.

Kind Regards, Steven Roche SHPL.

Get a free e-mail account with Hotmail. Sign-up now.
This email was received from the INTERNET and scanned by the Government Secure

Emails Relating to FOI Request

Intranet anti-virus service supplied by Cable&Wireless Worldwide in partnership with MessageLabs. (CCTM Certificate Number 2009/09/0052.) In case of problems, please call your organisation's IT Helpdesk.

Communications via the GSi may be automatically logged, monitored and/or recorded for legal purposes.

This email has been received from an external party and has been swept for the presence of computer viruses.

Emails Relating to FOI Request

Document 5

From: [redacted S.38(1)(b)]

Sent: 21 May 2010 11:49

To: steven roche <[redacted S.38(1)(b)]>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@instantemail.t-mobile.co.uk>; [redacted S.38(1)(b)] <[redacted S.38(1)(b)]@avivainvestors.com>

Subject: RE: Pension Funds: Scottish Social Housing Fund

Thanks for this Stephen

Just for the avoidance of doubt, my reference to things being positive at the meeting was in relation to how our Minister views the principle of getting pension funds involved in housing investment. (Your e-mail of 20th May refers.) I was not inferring that the Minister would necessarily regard your specific proposal as positive. He will take advice and then make up his mind.

Hope this clarifies things.

[redacted S.38(1)(b)]

From: steven roche [[mailto:\[redacted S.38\(1\)\(b\)\]](mailto:[redacted S.38(1)(b)])]

Sent: 21 May 2010 11:34

To: [redacted S.38(1)(b)]

Subject: FW: Pension Funds: Scottish Social Housing Fund

All,

Email below confirms Aviva's ongoing interest.

As previously stated I consider there to be solutions to the concerns of guarantees and repairs. I'll discuss these with Aviva (which is not to imply all answers lie there) and return to ScotGov thereafter.

With the above in mind I feel the 50% HAG: 50% Fund Investment agreement over 50 years to be workable.

Notwithstanding as both RSL's and Aviva prefer a 35 year term then to accommodate same an increase in HAG is necessary. HAG level would still remain in the fifties percentage range.

This is not to say that post meeting we shall have the matter solved simply that we shall hopefully be close to an "in principle" agreement.

Deliverability is needed and much work has still to be undertaken.

Should it be thought helpful that ScotGov be represented at the meeting (2/6/10 at noon in 1 Poultry) then I would welcome same and can't imagine Andrew being otherwise minded.

Emails Relating to FOI Request

Otherwise I'll update all post meeting. Should any of the foregoing require discussion, or there be any feedback from the paper to Ministers, please contact me.

Kind Regards, Steven Roche SHPL.

From: **[redacted S.38(1)(b)]@avivainvestors.com**
To: **[redacted S.38(1)(b)]**
Date: Thu, 20 May 2010 16:26:40 +0100
Subject: RE: Pension Funds: Scottish Social Housing Fund

Steven

This sounds encouraging, very happy to have a meeting 2nd/3rd June.
regards

[redacted S.38(1)(b)]

From: steven roche [[mailto:\[redacted S.38\(1\)\(b\)\]](mailto:[redacted S.38(1)(b)])]
Sent: 20 May 2010 11:34
To: **[redacted S.38(1)(b)]**
Subject: FW: Pension Funds: Scottish Social Housing Fund

Andrew,

I trust you received hard copy of our 4/May presentation. I now forward subsequent self-explanatory ScotGov emails.

I fully appreciate the matter is on hold with Aviva whilst you consider "taking on" existing RSL borrowings. Nonetheless, you'll appreciate that proposals gain their own momentum.

Both ScotGov and ourselves have been approached by other Institutions in this regard. The reason we return to you is twofold: 1) we are obligated to you and 2) other Funds presently require ownership (which is achievable but cumbersome.)

Returning to where we are now - with RSL's "wanting" 35 years - we can now negotiate with ScotGov almost exactly the terms detailed in your email of 24/Feb/10 to Brad Gilbert.

All variables were discussed last Friday. Alex Robertson attended and confirms (despite the brevity of Alistair Dickson's email) the paper to Ministers will be positive. The need for "deliverability" by all parties was discussed at length.

Both myself and Alasdair Lindsay (who also attended last Friday) are in London the week after next and hopefully we can meet you at 1 Poultry and discuss in detail.

In closing, I will also shortly email our presentation and cover note which brings you fully up to date. Whilst the presentation can be used as a template a small increase in Government input (which stays well below the current level) is necessary.

Look forward to hearing from you.

Emails Relating to FOI Request

Kind Regards, Steven.

From: **[redacted S.38(1)(b)]**
To: **[redacted S.38(1)(b)]@scotland.gsi.gov.uk**; **[redacted S.38(1)(b)]@scotland.gsi.gov.uk**; **[redacted S.38(1)(b)]@scotland.gsi.gov.uk**; **[redacted S.38(1)(b)]@scotland.gsi.gov.uk**; **[redacted S.38(1)(b)]@instantemail.t-mobile.co.uk**
Subject: RE: Pension Funds: Scottish Social Housing Fund
Date: Wed, 19 May 2010 12:48:14 +0100

[redacted S.38(1)(b)],

I refer to your email below.

This enables me to return to Pension Fund managers (Andrew Appleyard in the first instance.)

It was good that most numbers/proposals were ratified at the meeting.

Following the meeting Alasdair Lindsay and myself gave some thought to 1) "guarantees" or whatever will be required by Funds and 2) repair costs/allowances. We feel we can be constructive in both regards.

Subsequent to the meeting I updated RSL's and they reiterated their preference for the shorter term of 35 years - I also learned that within the past year a commercial bank has increased it's proposed development funding arrangement fee to a RSL by a factor of no less than tenfold. This is beginning to reflect our experiences in the private sector.

Should any aspect require more discussion, please contact me. I have copied all in to update.

Kind Regards, Steven.

Subject: RE: Pension Funds: Scottish Social Housing Fund
Date: Wed, 19 May 2010 09:41:29 +0100
From: **[redacted S.38(1)(b)]@scotland.gsi.gov.uk**
To: **[redacted S.38(1)(b)]**

As requested, I'm confirming that at our meeting last Friday we said we would put advice to Ministers shortly on your proposal and would expect to be able to get back to you in early June.

Alistair

From: steven roche [[mailto:\[redacted S.38\(1\)\(b\)\]](mailto:[redacted S.38(1)(b)])]
Sent: 04 May 2010 12:19
To: **[redacted S.38(1)(b)]**
Subject: Pension Funds: Scottish Social Housing Fund

[redacted S.38(1)(b)],

Emails Relating to FOI Request

I refer to our recently forwarded "presentation."

As I explained last week I was neither allowed to come back to you earlier nor was there any point until I had Pension Fund Industry "standards" agreed. As I say in covering note I hope to discuss figures with you later this week and look forward to you contacting me on: 07885 668 744 to arrange.

Turning to the numbers used; primarily they are those adopted at our meeting last October with the average rent increased from £3,600/annum to £3,900/annum. (the reasoning being allowing two years uplift at 4.5 and 4%) You'll note we've held costs.

With regard to RSL's concerns about their annual "allowance" - the proposal of 50% HAG allows, £850/annum. Should, for whatever reason this be deemed insufficient then an increase in HAG to 55% would release £1,100/annum and an increase to 60% HAG- £1,400/annum.

I look forward to discussing the above, and updating you with regard to Aviva and others, in early course and await hearing from you.

Once again, apologies for any perceived lack of consultation.

Kind Regards, Steven.

Get a new e-mail account with Hotmail - Free. [Sign-up now.](#)

This email was received from the INTERNET and scanned by the Government Secure Intranet anti-virus service supplied by Cable&Wireless Worldwide in partnership with MessageLabs. (CCTM Certificate Number 2009/09/0052.) In case of problems, please call your organisation's IT Helpdesk.

Communications via the GSi may be automatically logged, monitored and/or recorded for legal purposes.

This email has been received from an external party and
has been swept for the presence of computer viruses.

This e-mail (and any files or other attachments transmitted with it) is intended solely for the attention of the addressee(s). Unauthorised use, disclosure, storage, copying or distribution of any part of this e-mail is not permitted. If you are not the intended recipient please destroy the email, remove any copies from your system and inform the sender immediately by return.

Communications with the Scottish Government may be monitored or recorded in order to secure the effective operation of the system and for other lawful purposes. The views or opinions contained within this e-mail may not necessarily reflect those of the Scottish Government.

The original of this email was scanned for viruses by the Government Secure Intranet virus scanning service supplied by Cable&Wireless Worldwide in partnership with MessageLabs. (CCTM Certificate Number 2009/09/0052.) On leaving the GSi this email was certified virus free.

Communications via the GSi may be automatically logged, monitored and/or recorded for legal purposes.

Emails Relating to FOI Request

Get a new e-mail account with Hotmail – Free. [Sign-up now.](#)

Get a free e-mail account with Hotmail. [Sign-up now.](#)

This email transmission and any attachments may contain confidential or legally privileged information that is intended for the addressee(s) only. Any views or opinions presented are solely those of the author and do not necessarily represent those of Aviva Investors. If you are not the intended recipient or person responsible for delivering this information to the intended recipient you are hereby notified that any disclosure, copying, distribution or reliance upon the contents of this email is strictly prohibited. If you have received this email transmission in error please notify the sender immediately so that we may arrange for its proper delivery and delete the message from your inbox.

Aviva Investors Global Services Limited, registered in England No. 1151805. Entered in the Financial Services Authority register, No: 119178.

Aviva Investors Pensions Limited, registered in England No. 1059606. Entered in the Financial Services Authority register, No:110410.

Aviva Investors London Limited, registered in England No. 2152949. Entered in the Financial Services Authority register, No: 448407.

Registered Office for all companies: No. 1 Poultry, London EC2R 8EJ. All are authorised and regulated in the UK by the Financial Services Authority. VAT number: 105 4373 00.

Telephone calls to Aviva Investors may be recorded for training or monitoring purposes. We may monitor traffic data of both business and personal emails. By replying to this email, you consent to us monitoring the content of any emails you send to or receive from Aviva Investors.

Get a new e-mail account with Hotmail – Free. [Sign-up now.](#)

This email was received from the INTERNET and scanned by the Government Secure Intranet anti-virus service supplied by Cable&Wireless Worldwide in partnership with MessageLabs. (CCTM Certificate Number 2009/09/0052.) In case of problems, please call your organisation's IT Helpdesk.

Communications via the GSi may be automatically logged, monitored and/or recorded for legal purposes.

This email has been received from an external party and
has been swept for the presence of computer viruses.

Emails Relating to FOI Request

Document 6 – Please note that Document 1 “Evaluation of Proposal from Social Housing Partners Ltd” was embedded within this email.

From: [redacted S.38(1)(b)]

Sent: 10 June 2010 14:53

To: Minister for Housing and Communities

<MinisterforHousingandCommunities@scotland.gsi.gov.uk>; Cabinet Secretary for Health and Wellbeing

<CabinetSecretaryforHealthandWellbeing@scotland.gsi.gov.uk>

Cc: DG Justice and Communities

<DGJusticeandCommunities@scotland.gsi.gov.uk>; DG Health

<DGHealth@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] <[redacted

S.38(1)(b)]@scotland.gsi.gov.uk>; Communications Health and Wellbeing

<CommunicationsHealthandWellbeing@scotland.gsi.gov.uk>; [redacted S.38(1)(b)]

<[redacted S.38(1)(b)]@scotland.gsi.gov.uk>; [redacted S.38(1)(b)] Special

Adviser <[redacted S.38(1)(b)]@scotland.gsi.gov.uk>

Subject: Submission - evaluation of proposal from Social Housing Partners Ltd - 10 June 2010

To: Mr Neil and Ms Sturgeon

CC: per list

Please find enclosed a submission about our evaluation of a proposal for financing affordable housing which includes institutional investment by Aviva.

We have been working with Mr Roche as he has developed this proposal for more than a year. We have concluded the proposal does not offer value for money (the real amount of grant required is as least as much as the amount of HAG we currently provide per unit). This does not mean we stop looking at options to secure institutional investment in affordable housing or and rejecting this proposal does not prevent the Scottish Government from considering other proposals, including any future ones involving Aviva. It's just that this particular proposal is not the best way to achieve institutional investment for affordable homes.

Emails Relating to FOI Request

Regards

[redacted S.38(1)(b)]

Policy Analyst - Housing & Regeneration - Housing Reform

Ext [redacted S.38(1)(b)]