FINANCE COMMITTEE

DRAFT BUDGET 2014-15

SUBMISSION FROM CHARTERED INSTITUTE OF HOUSING IN SCOTLAND

1. CIH Scotland is pleased to have the opportunity to give evidence to the Committee on the 2014/15 Scottish budget. Our submission is relatively short, focusing as it does on the main element of the housing budget – the Affordable Housing Supply Programme (AHSP).

2. We are making no comment on the single year 2014/15 budget specifically, as the AHSP runs on a three year basis – 2012/13 to 2014/15, consistent with the current spending round. Most expenditure in 2014/15 will be on housing projects commenced in the preceding two years, as 'payout' is generally made on completion of the properties. [Where new money is identified during a given year, spending it in that year can therefore be challenging. Some projects, such as shared equity, can absorb new money 'in year' – for example to fund equity stakes for developments already built.]

3. The original housing supply budget for the spending period 2012/13 to 2014/15 was £638 million. This compared with housing supply expenditure of around £1.39 billion in the period 2008/09 to 2010/11[1]. The £638m was made up of £378m in the infrastructure and capital investment part of the budget and £260m in the local government settlement (this is because the affordable housing monies in Edinburgh and Glasgow are channelled through those two councils under 'TMDF' arrangements – the Transfer of the Management of Development Funding). All subsequent additions to the overall housing budget normally involve consideration of how monies will be split between these two components – or, put another way, how much will go to Edinburgh and Glasgow and how much to the other 30 local authority areas.

4. When the original three year figure of £638m was announced, CIH Scotland and other housing bodies argued strongly that housing had taken a disproportionately big hit compared with the overall cut to the Scottish Government's overall capital expenditure budget.

5. However, some of the shortfall has since been made up by a series of very welcome announcements of new funding, which have now brought the three year budget to just under £900m (this is our estimate as the actual figure is not published in such a way as to enable ongoing monitoring of the total at any given time). We estimate that around two thirds of the additional money has been awarded as a result of Barnett consequentials from spending announcements relating to England: the Scottish Government does not have to use such consequentials for housing purposes but, rightly in our view, has chosen to do so.

[1] 2008/09 to 2010/11 is the last three year spending period with which we can compare the current (2012/13 to 2014/15) round: the budget for 2011/12 was a single year budget of around £360m.

6. Whilst this still means that housing took a disproportionately large reduction, it is good to see the original budget supplemented to the tune of around 40%. We believe the additional funding offers some reassurance that Ministers do understand both the immediate and longer term impact that housing has on the economy, as well as the beneficial impact in terms of health and education outcomes and the reduction of crime and anti social behaviour.

7. The most recent addition to the budget was £44m announced in July 2013 alongside a significant increase in the grant rates for new council and housing association homes. This lifted the benchmark grant rate for new council housing to £46,000 and, for housing associations, to £58,000, with additional funding available for specific categories such as greener homes and remote rural homes.

8. The increased grant rates were in response to serious concerns among both councils and housing associations that the Scottish Government's annual housing supply targets (6,000 affordable homes of which at least 4,000 for social rent) could not be met in the coming years at what were then the current grant rates. The 32 local authority 'strategic local programmes' for 2012/13-2014/15 contain plans for 8,000 new homes to be started and finished by 31 March 2015: the increased grant rates will hopefully mean that a decent proportion can indeed meet this timescale, though it seems certain that a number will not be completed at least until 2015/16. The most recent £44m additional funding will cover the cost of the first 2,500-2,750 or so homes built at the higher grant rates.

9. The numerous (albeit very welcome) announcements of new money during the current spending period, alongside concerns at the impact of reduced grant rates, have meant that it is likely that the volume of completions in the overall period to 31 March 2015 will not be as great as the Scottish Government would have originally expected. In theory, this presents a significant risk of underspend, given that – as mentioned previously – most of the funding for a given development is awarded only on completion.

10. CIH Scotland's understanding is that a key way in which any potential underspend can be avoided is for the Scottish Government to relax the 'payment on completion' approach so that (as used to happen up until 2-3 years ago) phased payments can be made once a project has started its construction phase. We welcome this exercising of flexibility, firstly because it recognises that councils and housing associations are incurring significant costs well before completion of a project, and secondly because it helps ensure that the budget is fully spent.