WRITTEN EVIDENCE FROM THE ASSOCIATION OF LOCAL AUTHORITY CHIEF HOUSING OFFICERS (ALACHO)

## Introduction

As the representative body for Scotland's local authority chief housing officers, ALACHO welcomes the opportunity to provide evidence to the Committee's meeting on 3rd October, and submits the written evidence below in support of our position.

## ALACHO Response

ALACHO understands the Committee have agreed to focus its consideration of the draft budget on the following key themes, and has therefore responded to each in turn:

1. **Review of the first year of the affordable housing programme – what has worked and what less well? What can be learned for future years? How will the new local delivery focus work, what barriers does it need to overcome to maximise its effectiveness? Is the programmed expenditure sufficient to meet objectives?**

Given we're only in the first few months of the new affordable housing supply programme (AHSP) management system most councils would say it's a little too early to reach firm conclusions on progress. However, the key components of the new regime, namely : three year resource planning assumptions; single integrated council / RSL investment programmes governed by priorities identified in local housing strategies (LHS) and set out in strategic local programmes (SLPs); and a degree of devolved programme management by councils, had all been previously sought by councils and were therefore strongly welcomed. Consequently, local councils have a significant interest in ensuring the new arrangements are successful. The new local delivery focus requires a fair degree of partnership and co-ordination between councils RSLs and indeed the private sector to ensure deliverable programmes are developed and output targets achieved. So far this seems not to have been a problem, and most councils appear to be submitting robust SLPs.

Despite some RSLs being concerned that they would be disadvantaged at the expense of councils favouring their own projects for development, this does not seem to have occurred, with most local SLPs appearing to deliver the intended "mixed economy of provision" specified in the guidance supporting the new regime. Of more significance for the future perhaps is the fact that several councils report local RSLs withdrawing from further new housing development due to perceived inadequacies resulting from changes to the grant (subsidy) regime. Time will tell how many RSLs (and indeed councils) can "stay in the game" at grant rates of £40,000 and £30,000 respectively. Moreover, some councils also question the equity of higher government grant contributions being available for RSLs compared to themselves. That said, councils appear to be reasonably confident they and their partners can deliver on the government's affordable housing targets over the next three years, even if beyond that things are less certain, particularly regarding RSL contributions.

Overall, whilst programmed expenditure is likely to be sufficient to meet current government output targets, most councils would say the current output of social housing does not come close to meeting the absolute needs identified in local housing strategies. For this to occur would require a significant addition to the national affordable housing budget, and quite possibly upward movement in grant levels.

**2. Is there sufficient financial capacity, including local authority borrowing capacity? Operating prior to the existing subsidy regime, the Bramley research suggested that under a range of subsidy and rent scenarios that there would be sufficient capacity for the social sector to deliver additional supply over the long term. Two years on from the analysis, and given the continuing difficult environment, how does this assessment of financial capacity look now and should Government continue to predicate its analysis on it?**

Looking across the three year time horizon of the current programme, councils seem confident that the financial capacity exists to deliver on the government's targets. Local SLPs are the key delivery document. These were formulated on the basis of known grant rates and funding capacity (council and RSL) so should be pretty authoritative documents in terms of a three year delivery period. Looking to the longer term (i.e. 2015/16 and beyond) councils seem *reasonably optimistic* that, given continued subsidy of £30,000 a unit, they could collectively meet Bramley's estimate of a notional 2000[1] council units per year (although this will depend on resource assumptions being known well in advance of the next three year period from 2015/16 onwards). Any optimism must of course be tempered by the as yet unknown impact of welfare reforms on council revenues, as any reduction in forecast revenues would diminish resources available for funding new house building. Welfare reform has of course has the potential to impact equally on RSLs, who, due to perceptions of insufficient grant subsidy and a different lending regime from councils, seem less confident about meeting Bramley's "targets". If Government is indeed predicating its analysis of capacity on Bramley's report, it would be wise to revisit the research assumptions on a regular basis taking account of changed economic and financial circumstances, and to regularly check capacity with social housing providers.

**3. Is there sufficient land supply, subsidised or otherwise, including section 75 affordable housing agreements, to enable new supply where it is needed? In particular, is the delivery compromised by the performance of housing and land markets in providing opportunity for social and affordable supply? To what extent is the supply target constrained by the performance of the market sector and what opportunities would flow from market recovery?**

ALACHO is not aware of any *systemic* issues with lack of land supply inhibiting the provision of new affordable housing. A few councils do report this as an issue, usually in areas of existing high market pressure. However, many more report the stalling of developments under Section 75 agreements (where developers are obliged to contribute an element of total site capacity for social housing in return for planning permission). This suggests that prevailing economic and housing market conditions (especially lack of mortgage finance at the starter end of the market) are a more significant problem than land supply per se. A market upturn would potentially kick-start some of the S75 deals which may be stalled at the moment. However, it does not appear that the council new supply target is being constrained by the performance of the market sector at this stage.

[1] During oral evidence Jim Hayton, Policy Manager, ALACHO, corrected this figure to 2,500. See the Infrastructure and Capital Investment Committee, Official Report, 3 October 2012, Col: 933. http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=7404&mode=pdf

Doubtless, under the new AHSP management regime, councils and Scottish government will be working closely to monitor overall output to assess whether output is being constrained by land supply, performance of the market sector, or any other factor.

**4. Housing Benefit is undergoing major reforms including both the rental market's Local Housing Allowance but also for social tenants, for instance, as a result of the introduction of Universal Credit. There has been much focus on the impact of changes to non-dependent deductions, ceilings on household benefit bills, the end of rent direct so that social landlords have to organise payment of rent with benefit recipients and, the under-occupation or bedroom tax proposals. Proposals such as the NHT have been designed to not fall foul of new ceilings on HB but indirectly are there risks to new supply as a result of the reforms e.g. if arrears rise because of the end of rent direct or the implications of the under-occupation charge reducing affordability - how will this impact on lender decisions about new supply?**

The potential impact of welfare reforms on councils was mentioned above. The net costs of new council house building (i.e. deducting government grant) are effectively funded from surpluses on housing revenue accounts. To the extent surpluses are less than forecast , due for example to a reduction in projected rental income resulting from the impact of rents being paid direct to tenants( or for example, a requirement to meet higher energy efficiency standards) councils ability to service increased debt is diminished. Elected members will then have to decide whether to increase rents to compensate or to reduce new building. Because of differing lending regimes, the potential impact on lender decisions would be confined to the RSL sector, whereby lenders may be more reluctant to lend if they feel their clients' net income will be insufficient to repay loans, whether as a result of welfare reform consequences or any other factor.

**5. Will the new system of multi-year local RPA retain sufficient central oversight to remain 'strategic' in a system where more than 4/5 of affordable programme is delivered locally?**

This is essentially a question for government although, as mentioned above, given that, as requested, an element of devolved (but not absolute) programme management has been afforded to local government under the new management arrangements, councils have a vested increase in making the new scheme successful, and will be working closely with Scottish Government colleagues to this end.

**6. What are the longer term implications of the apparent shift in the geography and nature of providers developing in the RSL sector as a result of lower grant rates and the premium on financial strength - for the shape of the RSL sector?**

It certainly looks like there may well be fewer RSLs developing in future, and certainly post 2015 when the current programme ends. This need not be a bad thing, if those remaining are able to generate scale efficiencies in procurement, whilst retaining the generally acknowledged benefits of local management and service delivery provided by local RSLs. The extent to which council house building will fill any gaps emerging as RSLs cease developing remains to be seen.

**7. Are the underlying conceptions and prioritisation of housing need (e.g. 2/3 social rent in the programme) reasoned and reasonable? Are the spatial allocations of the**

**RPA consistent with an acceptable way of determining need (e.g. affordable need, regeneration, homelessness, etc.)?**

Given the current economic climate and the need to maximise resources for affordable housing the assumptions behind the 2/3 social rent 1/3 affordable housing split in the programme are probably justifiable. Although outstanding needs could easily justify spending the whole allocation on social housing, ALACHO accepts the premise that there are other forms of need, and the principle of maximising output in the interests of those on middle incomes, testing new forms of provision, and supporting construction output , is reasonable in the circumstances.

Being largely a function of historical accident, spatial resource allocations currently have no discernible co-relation with patterns of need. It is to be hoped that the new formula based model of resource allocation currently being finalised between Scottish government and COSLA will go some way to shifting the basis of capital allocations for affordable housing on to a more transparent and needs based footing.

**8. The Committee also has a requirement to assess how spending has taken account of climate change issues and to report to the Rural Affairs, Climate Change and Environment Committee. We would be grateful if you could take any such considerations into account in your response/evidence, particularly in the area of energy efficiency.**

There is some evidence that attempts are being made to take account of climate change issues within the AHSP budget. Higher grant benchmarks are available for greener homes, and a specific £10 million greener homes challenge fund has been announced. Whilst this is very welcome, for most councils the key task in the medium to long term will be to retrofit their existing housing stock to meet higher energy efficiency standards. Unfortunately it could well be that the costs of this exercise will diminish sums available for investment in new supply.