WRITTEN EVIDENCE FROM CIH SCOTLAND

Key Messages

The £770m in the three year Affordable Housing Supply Programme should be sufficient to allow supply targets to be met, but there are serious doubts over whether low grant rates are sustainable in the longer term.

There are also doubts about what type of housing can be provided at current grant rates. More expensive provision such as wheelchair standard housing, housing in remote rural areas and housing as part of urban regeneration projects may be very difficult to fund.

The introduction of a three year programme has been very welcome, but it is not a rolling programme.

The size of the next three year budget (2015/16-2017/18) will be shaped *not* by the usual spending review process in Autumn 2014 but by the level of approvals of new affordable housing next year (13/14) and the year after (14/15). If approvals fall, so will the size of the budget.

So-called innovative finance models are welcome but are *not* a replacement for the grant that is always needed to provide social rented housing. 'Innovative finance' is usually alternative forms of private finance to replace the lending which banks are no longer undertaking.

Most innovative finance models fund higher rent housing and not social rented housing. Mid-market rent might 'pay for itself' but it generally cannot cross subsidise social rented housing.

General Comments – is the Scottish Housing Budget adequate?

In CIH Scotland's view, the £770m which is now in the three year Affordable Housing Supply Programme 2012/13-2014/15 will be sufficient to enable the Scottish Government to achieve its target of 6,000 affordable homes per year, of which at least 4,000 are for social rent. Greatly reduced grant rates – particularly for housing associations – make this annual target achievable in the shorter term, though there are serious doubts about the long term sustainability of such rates.

A year ago, the original draft budget for the three year period stood at just £630m – this contrasted with *single year* budgets of around £350m in 2011-12 and an original baseline figure of £490m in 2010-11. CIH felt that even in a tough budget round, the original £630m three-year allocation represented a disproportionately big hit for housing, and it is therefore entirely appropriate that as a result of Barnett consequentials and other new money, some of the damage has since been addressed with £140m added to the original £630m, including the £40m announced by the Finance Secretary in late September.

It is crucial to bear in mind that most of the annual funding is used to pay out on completion of homes that were approved around two years earlier. This means that most of the 2012-13 budget will go to pay for homes approved under the more generous grant regime which existed two years ago.

It also means that the size of the next three year budget (2015/16-2017/18) will be shaped *not* by the usual spending review process in Autumn 2014 but by the level of approvals of new affordable housing next year (13/14) and the year after (14/15). If approvals in these two years fall because of uncertainty about how much money there will be to pay out on those approvals 18-24 months later, then by default this will shape the next three year housing budget as there will be fewer competed homes to pay out on.

This makes it essential that the Scottish Government acts to introduce a rolling three-year programme – something which, for the avoidance of doubt, is not currently in place.

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?

Even allowing for the fact that some current housing expenditure is paying out on homes completed at higher grant rates, in pure numbers terms, the £770m should be sufficient to enable at least 6,000 new affordable homes to be funded each year. A significant minority of the 6,000 homes – in particular those mid-market rent homes facilitated through the National Housing Trust – are provided at little or no public subsidy other than a loan guarantee, leaving the bulk of the funding to be channelled to social rented housing and other programmes requiring subsidy.

We are bound to note that a programme of 6,000 affordable homes (of which at least 4,000 are for social rent) is nowhere near what is needed to enable serious housing need to be addressed. We recognise the realities of the difficult financial climate but always urge the Scottish Government to seek every opportunity to find new funding which could help see the 6,000 target exceeded.

CIH Scotland does have concerns about what *range* of housing can be provided within the programme and we set out these concerns in our response to Question 2 below.

Whilst it is currently too early to ascertain how the new three year programme is working, CIH Scotland welcomes the principle of giving local authorities greater influence over the distribution of resources for affordable housing in line with their Local Housing Strategies.

Relationships between local authorities and their RSL partners are generally very good. It will, however, be an intriguing challenge – for the many councils now directly providing new rented homes – to decide how much money to channel to RSLs and how much to channel to council house building. The lower grant rate at which councils can build (e.g. because they have access to cheaper loan finance and often have land) means important judgements have to be made in each area about the respective capacity of councils and RSLs to deliver new housing.

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?

Whilst Bramley's estimate of capacity among councils seems to be fairly accurate (and may even have been an under-estimate), we are aware of concerns that in relation to RSLs his research may have been flawed. For example it may not have taken sufficient account of the numerous calls on RSL reserves, including the meeting of the Scottish Housing Quality Standard and further similar standards for existing housing. It is also almost certain that the lending climate for RSLs has become even tougher than it was predicted to be at the time of the research, and both councils and RSLs face much uncertainty over the impact of the welfare reforms – something else the Bramley research cannot have foreseen. The general message seems to be that RSLs can deliver for now, but that it remains very unclear what longer term capacity they will maintain to build at current grant rates.

A more pertinent question at this stage might be *what type of* (rather than how much) housing councils and RSLs can deliver at current grant rates. The lower the grant rate is, the more concern we would have that certain types of more expensive provision will be overlooked:

- It is already clear, for example, that the amount of housing built to full wheelchair standard has fallen to worryingly low levels.
- We also have serious concerns that the regeneration of difficult estates will largely fall by the wayside as providers steer clear of the higher costs such as those associated with contaminated brownfield sites.
- Housing with innovative 'green' features can attract a slightly higher grant rate, but we know that some councils have received no applications from RSLs to make such provision as the RSLs believe it is impossible even at the higher rate
- Housing in more remote rural areas can also attract higher grant rates but the same anxiety applies that in the coming years providers will increasingly steer clear of such provision
- The provision of specialist housing with care for older people has all but dried up.

We would also want the Committee to note that whilst CIH very much welcomes any legitimate new form of innovative finance for affordable housing, no such private finance is a replacement for grant. Innovative finance replaces the private finance which used to come from banks and building societies, and more often than not facilitates provision other than social rent – most notably mid-market rent.

Furthermore, whilst mid-market rent housing is extremely welcome in those areas where there is a clear need for it (i.e. normally where there is a so-called 'healthy' private rented market), it *cannot* cross-subsidise the provision of social rented housing. Only sales, and potentially full market rent provision, can cross-subsidise social rented housing.

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?

Whilst there are still likely to be some areas of particular housing pressure where land remains in short supply or there are infrastructure issues (such as connecting to water networks in remote areas), in general terms there are fewer land supply problems than there were some years ago. However, as mentioned earlier, some types of land which are more expensive to develop on are likely to be avoided as social landlords seek to build within current grant rates.

The developer downturn is inevitably having an impact on the provision of affordable housing. For the time being there can be little or no further significant reliance on Section 75 contributions from developers, and some larger scale regeneration projects predicated on high levels of private sales have been seriously affected.

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?

Had the welfare reforms arrived a few years ago the position might have been different. But the combination of lower grant rates and welfare reform (not to mention meeting the Scottish Housing Quality Standard and newly proposed Energy Efficiency Standard) will put immense pressure on the capacity of social landlords to deliver new homes.

Preparing for welfare reform means not only expectations of lost income but also a necessity to proactively invest, for example increasing the number of housing officers who will be working closely with tenants to help them make benefit claims and pay their rent when their Universal Credit is paid directly to them. All this will inhibit investment in new housing.

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?

The greater influence now accorded to local authorities stops well short of the fuller control over resources which was given to Edinburgh and Glasgow many years ago. CIH welcomes the Scottish Government's retention of overall control of the new programme, as this will enable money which is not able to be spent in one area to be temporarily moved elsewhere so as to ensure that underspend does not occur.

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?

The geographic distribution of the affordable housing programme will need to be closely monitored. It is well known that an increasing proportion of smaller RSLs are no longer developing. That does not necessarily mean that no new homes are being provided in those RSLs' traditional patches: indeed it is the local authority's responsibility to focus new provision on areas where it is most needed, but it will be important for us all to keep a close eye on any consequences – for *communities* – of many smaller RSLs no longer building new homes.

The fact that some smaller RSLs are no longer developing does not mean that it will be more difficult for them to survive and indeed thrive as landlords. In fact, if an RSL is not developing it may well be taking on a lot less risk than that being taken on by developing RSLs. Welfare reform may prove to be a greater threat to financial stability.

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.)?

Although there is no evidence that the social/affordable two thirds/one third split is a particularly scientific one, it seems a reasonable approach nationally, not least as provision such as mid-market rent can help alleviate real market pressure in terms of the very limited options open to people on low/middle incomes. But in those *local* areas where there is little or no demand for alternative tenures, a two thirds/one third split may be wholly inappropriate because the overwhelming need is for social rented housing.

The allocation of monies within the affordable housing programme is largely based on historical accident and this is why a new distribution formula is being worked on by the Scottish Government and COSLA, based more closely on key factors affecting housing need. Any change to the way monies are distributed results in winners and losers, and it remains to be seen how easy it will be for local authorities to collectively agree a new formula.

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.

As alluded to earlier, it will be important to monitor take up of the slightly higher grant rate for certain types of 'greener' new homes. In the longer term, if take up is low, it would indicate that the actual extra costs are greater than those allowed for by the grant rates in place.

By far the greatest challenge to the housing sector is the retrofitting of existing stock to increase its energy efficiency and at the same time help alleviate fuel poverty across all housing tenures.