

## WRITTEN EVIDENCE FROM COSLA

**Introduction**

1. COSLA welcomes this opportunity to respond to the Infrastructure and Capital Investment Committee's call for evidence to inform its scrutiny of the 2013-14 Budget. It is noted that the Committee is focusing on the housing spend.

**Affordable Housing Supply Programme**

2. The Affordable Housing Supply Programme (AHSP) is part of the Scottish Budget which covers funding managed by the Scottish Government for affordable housing developments. The Scottish Government has set a target of building 30,000 affordable homes within the lifetime of this parliament. Twenty thousand houses are for social rent, of which at least 5,000 will be council houses. COSLA agrees with ALACHO that more than 4,000 social rented houses a year are needed to meet unmet need, as evidenced in councils' Local Housing Strategies. Councils seem confident that the financial capacity exists to deliver on local government targets. COSLA is reasonably optimistic that the 30,000 affordable homes target will be met subject to a number of caveats.
3. Other factors which may jeopardise the achievement of the target, are
  - Lenders constraining Registered Social Landlords' (RSLs) financial capacity
  - Sustainability of subsidy rates over the long term
  - Impact of welfare reform on council revenues, as any reduction in forecast revenues would diminish resources available for funding new house building; and
  - New Scottish Government policy initiatives, such as the Energy Efficiency Standard for Social Housing (ESSH)
4. The 2012 homelessness target places enormous pressure on councils and their waiting lists. New affordable housing stock is welcomed to help tackle homelessness. However, it will not solve the problem. Therefore greater focus is being placed on prevention through advice and information. The Housing Options Hubs has seen a significant reduction in homelessness presentations.

**Resource Planning Assumptions**

5. COSLA had for some time been seeking an approach to managing the AHSP which was more strategic, collaborative and sustainable, whereby councils, RSLs and developers work together instead of competing against each other to deliver new affordable local housing.
6. At the end of last year, COSLA welcomed the Scottish Government's agreement to move the AHSP to a resource planning approach (RPA) from 2012/13. The introduction of the RPA meant that non-strategic, resource intensive challenge funding would be discontinued for the main part of the AHSP. Under the RPA the funding streams for RSLs and councils have been brought into one budget. Each council allocates funding based on three year resource planning assumptions in their area through to March 2015.

7. Relationships between councils and their RSL partners are generally good. Councils are working with their RSL partners to draft their delivery plans, to ensure there is a coherent new build affordable housing programme in their area. Councils and RSLs will deliver these programmes together. Councils put forward to the Scottish Government a programme of social and affordable housing developments, based on Local Housing Strategies and Strategic Housing Investment Plans. These plans are then agreed between councils and the Scottish Government. The Scottish Government holds and manages the AHSP budget centrally and make payments to both councils and RSLs on completion of their approved projects.
8. COSLA notes that the Chartered Institute of Housing welcomed the principle of giving councils greater influence over the distribution of resources for affordable housing in line with their Local Housing Strategies. The RPA has secured greater autonomy and flexibility for councils to plan ahead to address their affordable housing shortage on a proper partnership footing. Councils are working closely with Scottish Government colleagues on the RPA.
9. It is important that RPAs for 2015 onwards are known well in advance. Enabling councils and RSLs to manage a rolling new build programme.

### **Distribution of Funding**

10. COSLA, alongside seeking the RPA, was keen to see a more effective and transparent deployment of resource for new affordable housing. Current spatial resource allocations have no discernible co-relation with patterns of need. COSLA and the Scottish Government are jointly considering a needs-based distribution methodology for the AHSP. The methodology is considering issues such as:
  - Affordability
  - Regeneration
  - Homelessness
  - Geographic pressure, such as remoteness.
11. Ministers and COSLA's political leadership will make the decision on any distribution methodology in due course.

### **Challenges to Meeting the 30,000 New Homes Target**

12. As mentioned earlier, whilst on paper the 30,000 target of new affordable housing appears achievable, there are a number of financial challenge facing councils and RSLs that could make the target harder to meet. Lower subsidy rates, welfare reform, the Scottish Housing Quality Standard (SHQS) and the proposed new Energy Efficiency Standard for Social Housing will place considerable pressure on councils and RSLs, by increasing the unit cost of new build affordable homes.

### *Subsidy*

13. There is discontent amongst some councils about the equity of higher government subsidy being available to RSLs. When looking at the longer-term sustainability of the new build affordable housing programme there is a case for re-visiting subsidy levels. COSLA notes ALACHO's concerns that several councils report local RSLs withdrawing from further new housing development due to perceived inadequacies resulting from changes to the subsidy regime.

*Welfare Reform*

14. It is difficult to predict with any certainty the impact of welfare reform. The changes will place a strain on councils' Housing Revenue Account, due to the expected increases in rent arrears and the change in the uprating of rents for housing benefit from the higher RPI to the lower CPI. Universal Credit will reduce the overall benefit an individual receives. This will place further pressure on tenants when prioritising bills and household expenditure. Direct payments could lead to a major destabilisation of council housing and social housing generally.
15. Welfare reform may inhibit councils' ability to borrow more and fund more affordable housing. New council house building is mainly funded through surpluses in Housing Revenue Accounts and Scottish Government subsidy. Should these surpluses be less than forecast, due to rent arrears, councils' ability to service debt is reduced. Councillors will be faced with the stark choice of reducing the new build programme or increasing rents.
16. COSLA recently held a Welfare Reform and Housing Benefit event for councils. The event demonstrated the concerted effort that councils are going to, to mitigate the impact of welfare reform. Whilst councils are taking a corporate approach to this, they are actively putting practical measures in place such as, extra effort in to collecting rent, tenancy sustainment, homelessness prevention and income maximisation checks.
17. The under occupancy change will have a significant impact upon the household income of tenants who may not be able to move to smaller accommodation due to the unavailability of suitable alternatives. It could lead to rent arrears and increased homelessness. Whilst increased funding has been made available for Discretionary Housing Payments (DHPs) by the DWP, it is unlikely to be sufficient for the anticipated level of demand. DHPs are only short term solution.

*Climate Change*

18. Councils are committed to the 2016 target to eradicate fuel poverty where practicable, and to meet their climate change duty. Retrofitting existing housing stock to meet higher energy efficiency standards could diminish sums available for investment in new affordable housing supply. The aim of the standard is to build on the SHQS in order to meet energy efficiency targets set for 2020, and then to set a series of milestones towards 2050, the target date for an 80% reduction in carbon emissions. COSLA, in line with the SFHA, supports the principles behind the EESSH, but we both have concerns about the affordability of the standard.
19. It is assumed that the bulk of funding will come from councils and RSLs' own investment programmes. The standard will lead to a greater reliance for some councils on borrowing and increasing tenants' rents. Meeting the standard's 2050 target is likely to be extremely difficult. The proposed standard needs to get the balance right between being challenging and yet being affordable and achievable. Councils need to be satisfied they can afford and plan for the 2020 and 2050 targets before committing to implementing the standard.