WRITTEN EVIDENCE FROM GLASGOW AND WEST OF SCOTLAND FORUM OF HOUSING ASSOCIATIONS (GWSF)

Introduction

GWSF represents 66 **community-controlled housing associations and co-operatives (CCHAs)** in 9 local authority areas in west central Scotland. CCHAs provide housing for 75,000 households in the region and own around 28% of all RSL housing in Scotland. This submission sets out our views on the seven thematic areas the Committee has specified.

1. The affordable housing programme

Budget and Targets

1.1 In relation to the 21,000 social housing target, we suggest that the Committee should seek information about:

- Units approved prior to 1 April 2012, which will now be counted as completions in the period to 2014/15
- How many of the units still to be approved are the subject of detailed, costed proposals
- What contingency plans are in place, if currently programmed social housing units cannot be built at the subsidy levels on offer.

1.2 A key test is whether the output targets can be met while also addressing the wider objectives championed by the Scottish Government. These wider objectives include greater environmental sustainability, community regeneration, town centre renewal, development of brownfield land and high quality place making, amongst other things.

1.3 A system driven by arbitrary subsidy benchmarks will compromise the achievement of these wider objectives, although this would not be apparent from current programme assessment and reporting methods, which are extremely limited in our view.

Strategic Level Issues

1.4 The introduction of 3-year funding programmes at local authority level is welcome, but needs to operate on a rolling rather than a “stop, start” basis. In Glasgow, the City Council has had to compress planned site starts for the vast majority of new projects into a single financial year (2013/14). There is no scope currently to plan for any site starts in 2014/15, if grant payments upon completion would fall into the next spending review period. The momentum of the programme depends on knowing sufficient funds will be available to honour commitments in the next spending review period.

1.5 Much of the emphasis in the housing programme is now on the interface between central and local government. “Bottom up” inputs to the planning process have been weakened, since housing association Strategy and Development Funding Plans no longer form part of the process.

Delivery Level Issues

1.6 The programme framework introduced in May 2012 will prevent some GWSF members from developing at all. For others, it creates obstacles in developing certain types of sites/housing that are strategically important but unavoidably more expensive to produce. Our main concerns about the new framework are that:

- There is a complete transfer of risk to developing organisations, at a time of unprecedented risks due to the lending environment, welfare reform etc
- Payment of subsidy is now deferred until project completion, resulting in unfunded financing costs and making no provision for feasibility studies, advance site acquisition funding or design fees.
- Subsidy benchmark levels work in some cases but not others – but at an overall level, they are not evidenced, adequate or sustainable.

1.7 GWSF has raised all of these issues with the Scottish Government, through correspondence with officials[1] and by submitting an independent expert report which sets out the difficulties the benchmark-based subsidy system creates in relation to developing urban brownfield sites.[2]

1.8 Our correspondence with the Government is ongoing, but indicates that:

- It remains unclear how the housing programme can continue to accommodate urban brownfield sites, to any significant degree.
- It is unclear whether the Government's subsidy levels apply at an overall programme level as well as to individual projects. On this point, we have been told the Government "does not have a precise set of assumptions".
- The Government has said that the subsidy benchmarks "have been broadly based on an analysis of past projects", and that it "has no plans to revert to a system of calculating subsidy based on an analysis of costs for all projects". This means that the subsidy levels are not being set on a reasoned or transparent basis.

What can be learned for future years?

1.9 The main changes we wish to see are:

- Subsidy benchmarks set with reference to real costs, and to be used as a tool for project appraisal rather than across whole programmes
- Express and meaningful flexibility for local authorities and housing associations to deliver on the most important local strategic priorities, taking account of the nature of sites and the intended client groups
- The reintroduction of housing association strategy and development funding plans and of funding for site acquisitions/other advance costs.

[1] http://www.gwsf.org.uk/uploads/002oct12/investmentcorrespondencewithsgsept12.pdf
[2] http://www.gwsf.org.uk/uploads/April12/nbmreportweb.pdf

2. Financial Capacity Issues and the Bramley Research

2.1 The Bramley research gives a theoretical and global view of financial capacity in housing associations, as we told Government officials in writing when the brief was being prepared. The financial capacity that actually exists is very different, for example depending on how and when individual housing associations were set up and how they were funded. In short, financial capacity can only be examined meaningfully at an individual organisational level taking account of financial variables.

2.2 This approach to assessing financial capacity is now even more important:

- Access to borrowing has become more challenging, with some lenders using new borrowing as a reason for seeking to re-price existing loans
- Welfare reform policies will threaten revenue streams and remove scope for new development being subsidised by higher rents
- Use of reserves/borrowing capacity to subsidise new development are "one off" occurrences – they are not a sustainable strategic choice
- Asset management/borrowing strategies cover existing stock (major repairs and renewals, higher energy efficiency obligations), as well as financial headroom for new building
- The Scottish Housing Regulator is correctly stressing the importance of prudence and informed risk assessment in the current economic climate.

2.3 For all of these reasons, we would question whether current policy is based on assumptions about financial capacity that are either reasoned or flexible.

3. Land Supply and Performance of the Market Sector

3.1 The Government has removed upfront funding for site acquisitions and other advance capital costs, a key feature of housing association finance since the 1970s. This will mean there will be no pipeline of future sites, unless housing associations adopt a more speculative approach to land purchases and much higher levels of risk. Land purchase in cities and town centres commonly involves complex acquisition issues, such as multiple ownerships or the need for site remediation works depending on ground conditions and previous usage. The changes to the funding system do not recognise these risks.

3.2 The housing market downturn has resulted in many sites earmarked for private sector development becoming "stalled". Derelict and undeveloped land is blighting some of our members' neighbourhoods, but there has not been significant activity to re-market the sites concerned.

3.3 The housing market downturn has greatly reduced opportunities to cross-subsidise the costs of new social housing through mixed tenure development. CCHAs have been at the forefront of introducing home ownership to their communities through mixed tenure development. This has helped create greater choice and more mixed communities, it has also generated sales receipts that can be set against the costs of social rented housing provision.

4. Housing Benefit and Welfare Reform

4.1 Welfare reform measures will increase rent arrears and homelessness and reduce the income stream of social landlords in all parts of the sector. Some lenders are already pursuing aggressive policies to re-price existing loans. Pressure on revenue streams will give lenders leverage to do more of this and will affect the availability and terms of private finance for new housing supply. For this reason, a number of housing associations – including some CCHAs - are now switching to bond finance rather than traditional project-specific loans.

4.2 GWSF has asked the Government to publish information on whether higher rents are currently being used to offset the costs of new housing. It seems clear that welfare reform measures will remove scope in future for using rents to generate additional capacity.

4.3 The UK Government has said it intends to make substantial further cuts in welfare spending, beyond the measures now being introduced. We are concerned that this could include setting caps on rental values for benefit purposes in the social rented sector, as is already the case in the private rented sector. This is a further reason why Government policy on housing investment should not be predicated on irresponsible risk-taking, when the nature of future risks is not quantifiable and is subject to constant change because of wider economic forces.

5. Central Oversight and Local Delivery of the Housing Programme

5.1 There has been significant delegation to local level for the best part of a decade in Glasgow and Edinburgh. The new system for other local authorities appears to give the Scottish Government the controls it needs to maintain central oversight.

5.2 We are more concerned that there is not enough transparency and accountability for what the housing programme is actually delivering, at national and local level. The Scottish Government publishes little detailed information about the planning and management of the housing programme, and it is now 10 years since we have seen any independent evaluation[1] of housing programme outcomes (as opposed to high level output figures on units produced and money spent).

5.3 Changes to the funding system mean that there is no longer a rigorous base of data to inform assessments of programme outcomes. In our view, it is vital to have better knowledge of what outcomes the housing programme is generating and how this is being achieved (for example, in relation to key inputs such as rent levels, land costs, construction costs, use of reserves, use of additional borrowing).

6. Geography/nature of providers and future implications for the RSL sector

6.1 GWSF's membership is made up of local, community-controlled housing providers. Some of our members are withdrawing from development, others are continuing but are saying that there will soon come a point when the risks to their tenants, assets and organisations can no longer be justified. There is no appetite among our

[1] The last comprehensive evaluation was published in 2005 but was restricted to projects approved in the period up to and including 2002.

members to surrender their autonomy, local control or financial stability, in return for small numbers of new houses.

6.2 We do not see the growing share of the housing programme directed to large national and regional developers as being indicative of greater efficiency or expertise. Instead, it reflects ability in some cases to develop at a loss for longer, business models predicated on growth, and greater risk-taking to achieve this.

6.3 This will not be sustainable. The largest Scottish developers also tend to have high and increasing levels of debt, and will have the greatest exposure to future risks arising from welfare reform. The next stage of the process (already underway) will be for even larger, UK-wide RSLs seeking entry to the Scottish sector, on the basis of their supposedly greater financial capacity. A number of Scottish RSLs have stated that the ability to build new houses is a main reason for them seeking to become subsidiaries of large UK group structures.

6.4 This emerging trend replicates what has already happened in England during the 2000s. Lower grant rates and a premium on financial strength there have coerced smaller, local housing providers into large group structures as the price of attracting housing investment. This has reduced local autonomy and accountability, despite commitments to the contrary.

6.5 Reliance on scale and "greater financial capacity" may also take Scottish social housing into uncharted waters in terms of financial risk. Earlier this year, the use of free-standing derivatives – a financing method also being used by a number of the largest Scottish and UK providers, to generate financial capacity to build – brought down the Netherlands' largest social housing provider, Vestia, which owned approximately 90,000 houses. This resulted in a €1.6 billion emergency government-backed loan to Vestia, and the sell-off of tens of thousands of houses[1].

6.6 We believe that current policy on housing investment needs to be linked to a strategic view on the Government's part about the kind of housing sector it wishes to promote in Scotland. Borrowing capacity is only one element of a much wider equation, in terms of what delivers effective and sustainable housing investment.

[1] **http://www.insidehousing.co.uk/finance/never-too-big-to-fail/6523836.article**

7. Resource Allocation and Prioritisation within the Housing Programme

7.1 The linkages between specific investment objectives and resource allocation are not sufficiently clear in our view. In the recent past, the Housing Association Grant system was based on sub-programmes linked to specific policy objectives (for example, urban regeneration, rural housing, specialist provision etc). That direct line of sight to policy objectives is now far weaker, in the absence of meaningful public reporting on the housing programme.

7.2 We are not aware of an empirical basis for determining the balance of the programme between social rent and other types of housing. Instead, we think this reflects financial and political judgements about how to balance a highly pressured housing budget and a range of housing needs, from social housing to needs among higher-income groups that arise from wider housing market factors. Naturally, our preference as social housing providers is that social housing should receive the greatest priority, to meet the needs of people who are on low incomes, poorly housed, or homeless.

7.3 GWSF members are adopting a pragmatic response to meeting a wider range of needs, including mid market renting housing, where this contributes to area regeneration or meets identified needs. There is, however, concern, that subsidy limits are creating strong pressure to include higher levels of mid market rented housing than are desirable, simply to make projects feasible.

7.4 The Scottish Government and COSLA are currently considering the question of spatial allocations. GWSF has not been directly involved in these discussions, and we await further information with interest.