

## WRITTEN EVIDENCE FROM PROFESSOR GLEN BRAMLEY

**General Observations**

The research mainly referred to in various submissions and statements as 'Bramley' was a study undertaken for the Scottish Government (Communities Analytical Services) in 2010 to investigate 'The Capacity of Registered Social Landlords and Local Authorities to build housing across Scotland'. I led a research team which also involved Professors Hal Pawson (Heriot-Watt and now Univ of New South Wales), Steve Wilcox (York Univ), Peter Williams (Cambridge), and my colleague Jimmy Morgan. There is also a reference in at least one of the submissions to an earlier 'Bramley' study for Communities Scotland, namely the 'Local Need and Affordability Model for Scotland Update (2005-based)' (Bramley/Karley/Watkins, 2006, CS Report 72), which was subsequently updated for the Scottish Government, and which is indirectly referred to in the 'Capacity' study.

The 'capacity' study was undertaken on a rather short timescale and against a somewhat difficult backdrop, in the run-up to the 2010 spending review. The short timescale meant that it was not possible to get into detailed consultation and exchange with representatives of the sector about details of the assumptions made. A further complication was that a part of the RSL sector made a collective decision not to cooperate with the research in the form of sharing business plan returns with the researchers, so the modelling of finances for this part of the sector had to be based on different information (essentially accounts data rather than business plans which involved a forward look).

As a consequence of these factors, the detailed modelling work was inevitably going to involve some rough elements and not be the last word on the subject. In retrospect it would be fair to say that there are some elements in the modelling of housing association finances, the most complex part of the study, which probably could be improved, and certainly one could consider different assumptions, or ranges of assumptions, for key factors of the kind that submissions to this Budget scrutiny have mentioned. There are complex and interconnected issues relating to depreciation accounting, debt repayment, and the accounting for future major repairs/improvements, which could affect outcomes, particularly in the medium-to-longer term.

The general view reflected in submissions to the scrutiny seems to be that our 2010 report estimates of LA new build capacity seemed reasonable, whereas our estimates of RSL capacity, while reasonable in the short term, were not so sustainable in the medium-longer term. I would probably tend to agree with that, with the same benefit of hindsight as the other contributors. This view is informed by knowledge of the model and its limitations and by consideration of the additional factors which need to be taken into account now, such as welfare reform. Not all the different assumptions one might make now point in the same direction, but on balance the picture is more pessimistic.

It certainly makes sense to review the assumptions and prospects for sustainable financial capacity in the sector as decisions on spending allocations are formulated for future years. It is also important to ensure that organisations bidding for such resources have demonstrated prudent business plans based on their own detailed knowledge of their circumstances.

The Scottish Government, were it faced with evidence that previous assumptions were looking 'optimistic', would still of course have several options. It could increase the grant rates somewhat, but with a given spending limit overall that would mean fewer new affordable homes. It could alternatively take the view that rents could rise a little more than in our baseline assumption (RPI+1%), without creating significant problems of affordability for social tenants, which would enable the financial capacity of social landlords to be restored to sustain the planned output. Or it could further raise the share of intermediate rent provision within the programme to make the numbers stack up.

As emphasized in the 2010 report, it was a study of *capacity*, not a forecast of what local authority committees/leaders and RSL management boards would *actually decide* to do. In all likelihood some would decide to build less than this, because of judgements about prudence and/or because of different priorities for their organisations and communities. If SG cuts grant rate so that it has only just enough viable scheme bids to just use up its budget, there is no certainty that these will be in the right places to meet need.

## Specific Questions

### Q.2 (Financial capacity)

As explained in the 'General Observations' above, I tend to agree with the views of other bodies presenting evidence that the RSL capacity might not be sustainable at the quite the level we estimated in the medium term. This would tend to lead to trade-off decisions between size of programme target and rent levels/increases and/or mix of intermediate vs social rent.

On the local authority side, our capacity estimates tended to be accepted by the commentators, although one might argue that the model used was too simple and theoretical. In practice local authority activity has not reached anything like this level yet, whereas RSLs have plenty of experience of producing at the rate suggested. It must also be emphasized that this capacity estimate depends upon the continuance of the current financial regime for local authorities, including prudential borrowing.

### Q.3 (Land supply)

In the short term both total and affordable housing supply are constrained by the continuing deep recession in the development market, which in the case of housing is directly attributable to the restricted availability of mortgage finance suitable for first time buyers and bank lending for construction businesses. Section 75 and similar planning arrangements for the provision of affordable housing are increasingly important in Scotland (although as yet less so than in England), and this means that a lack of private building will mean a lack of affordable building too.

I believe that in the medium and longer term the use of planning mechanisms of this kind can and will become a more important way of facilitating the provision of affordable housing, both in terms of access to land and in terms of defraying the subsidy cost to the Government. I therefore must beg to disagree with the observation of 'Homes for Scotland' that "...the primary method of delivering affordable housing remains through public subsidy. That must always be the case – private developers are businesses and cannot be expected to provide subsidies to affordable housing." In the foreseeable future there will never be

enough public subsidy for the level of affordable housing provision that many will want to see. The principle that a community's need for affordable housing is a material consideration in planning decisions has become strongly established in England but has not perhaps been given enough emphasis by the Scottish Government (in my view). It is *not developers* who are being asked to contribute towards the subsidy cost of affordable housing, but rather *landowners*. As was demonstrated in our report, landowners in many parts of Scotland with land suitable to gain planning permission for housing stand to make millions of pounds per hectare for doing nothing (see Table 5.1 in 2010 report). I do not see why scarce public subsidy should be pumped into their cause.

#### **Q.4 (Welfare Reform and Benefit Cuts)**

I agree with the general argument that the emerging shape of these changes tends to have the effect of reducing capacity. For both LAs and RSLs there is some likelihood of reductions in rental income collected and some increase in cost, so reducing surpluses and the ability to borrow and invest using these. For RSLs the added risk and uncertainty may be a stronger factor affecting their current borrowing capacity, although that is a transitional factor.

#### **Q.6 (Geography and provider shift)**

I agree with other commentators that a shift to fewer developing RSLs, mainly medium and larger, seems inevitable, and that this should offer scope for efficiencies. We did test the geography of capacity vs need in the 2010 study and showed that there could be some mismatch (i.e. some capacity in low need areas) – this echoes a point made in the last paragraph of my 'general observations'.

#### **Q.7 (Prioritisation of types of provision and geographical areas)**

I agree with the other commentators that it is not clear what the basis is for the split of provision between social and intermediate rent or between geographical areas, other than history.

There are models of need which attempt to estimate the potential need for additional 'intermediate' housing as well as social rented housing. The SG collates evidence from Local Authority Strategic Housing Need and Demand Estimates, and could presumably give a summary or range of values from these sources. The last update of my '2006' model for CS/SG was undertaken five years ago (autumn 2007) but involved extensive sensitivity tests on forward projections to 2021. That model, for what it is worth, suggested that the then 'intermediate' product (new build 'Homestake') could be appropriate for between 1400 and 1900 pa of an overall need of 10-14,000 pa (scenario C5), i.e. about 15% of the total. Intermediate provision would not make sense in all areas. I have not done more recent estimates for Scotland as a whole although I did detailed work for Highland in 2009. Some similar studies in the West of England suggest that intermediate provision might account for 20-25% of need on reasonable assumptions for that area. Evidence of this kind suggests that the one-third (2000 pa) split for intermediate may be on the high side, but I would emphasize that I have not updated these estimates and that conditions in the market have changed.

All of my affordability-based needs assessments including that described above tend to show higher levels of net need for additional affordable housing in areas of eastern and central Scotland, and in some rural areas, and some net surplus in Glasgow-Clydeside and some other areas with weaker economies and relatively declining shares of population (see for example Table 5.2 in 2010 report). This pattern does not correlate well with the historic allocation of investment resources, as has been noted in previous debates. However, more vigorous use of s.75 planning agreement contributions could help to balance things up, were these to be achieved.