WRITTEN EVIDENCE FROM HOMES FOR SCOTLAND

Context
Homes for Scotland is the representative body of the Scottish home building industry, with nearly 200 full and associate members. Its members build around 95% of all new homes for sale built each year, as well as a significant proportion of the affordable housing output annually.

Questions posed and responses from Homes for Scotland
Q1. 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?

HFS Response - From what we understand the Scottish Government has demonstrated that on paper the funds allocated to the affordable housing programme can deliver the affordable homes target set. We also understand that 2013/14 allocation was to be the lowest within the 3 year budgeting period. Some of the questions/concerns we have are listed below:

- How much of the target relies on the continued success of NHT at low funding at £2k per unit? If round 2 of the NHT and future phases deliver less than forecast, what impact will this have?

- Are the targets predicated on the growth of private supply to supplement the affordable housing programme through S75 contributions? Private sector completions are at extremely low levels, with completions in 2011 the lowest since the second world war.

- Impact of the challenging cap levels. The Government seems confident that RSLs and Local Authorities have the capacity to deliver at lower cap levels for the short term. Although believing strongly that efficiencies should be promoted, we do have concerns about the sustainability of the cap levels. Our concerns relate also to the procurement of construction services, where desperation to win tenders has forced contractors to reduce prices drastically with the aim of keeping work programmed and construction workers in jobs, but these levels are unsustainable in the medium to longer term and its not unlikely that we will see the loss of more construction firms before the recession is over. We are pleased to note that a review of procurement is soon to be undertaken and are hopeful that the result will be a transparent system which allows early partnerships to be formed.

- ‘Payment on completion’, when funding is paid to developers once the homes are built, looks set to continue. This approach may help the Scottish Government be creative in budget assumptions, but it can cause difficulty to the organisations delivering the homes. Short term finance must be sought from other sources to front fund projects. Up front funding continues to be a problem for the industry.

- In 2011, the industry welcomed the launch of the Innovation Fund. This fund allowed all constituted housing organisations, including the private sector, to bid directly for affordable housing funding to deliver development projects. Although we have concerns about the number of resources that can be wasted through blind bidding, we were encouraged by the flexibility of the fund and the creativity it inspired. No allocation for a repeat of this fund has been made. We would be extremely keen for this fund to become a long-term, programmed feature of the affordable housing budget with bidding 'windows' for the sector to put forward ideas they have for the delivery of much needed new homes.

- Within the overall budget, the funds allocated to housing supply are tied to the 'affordable housing investment programme'. This of course brings with it rigidity on how this money can be spent. Homes for Scotland has some ideas on how a few tweaks to existing programmes could maximise effectiveness/take-up. An example of this is New Supply Shared Equity. This would involve a review of what is termed 'affordable' in certain market areas to ensure it is realistic in terms of what can be provided within areas of high demand while still within reach for those currently locked out of the market. The benefits of leveraging that these changes could achieve have the potential to far outweigh any concerns relating to the intended use of these 'public funds'.

Around 80% of affordable housing supply funding is allocated directly to Local Authorities for delivery through Resource Planning Assumptions (RPAx). With well informed local housing strategies and investment programmes, Local Authorities should well be best placed to plan and deliver affordable housing in their areas. Many Local Authorities will wish to develop their own council housing, while some will have existing framework arrangements with RSLs. What about the private sector? How do they gain access to funding from Local Authorities to deliver affordable housing projects? With challenging grant levels and the need to rely on cross subsidy, all housing sectors must be given the opportunity to be involved. What is a private home builders route in? We liked the Innovation Fund because it acknowledged the role of the private sector and offered private companies a direct route in. Could this be mirrored in the RPAs?

Q2. 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?

HFS response - No additional comments other than to re-emphasise the importance of the private sector to work along with the "social" sector for delivery going forward.

Q3. 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?

HFS Response - Housing land supply has not been the main determinant of delivery of affordable housing. Housing completions statistics show that, while the private sector has been strongly influenced by the economic context – increasing output during periods of strong demand and money supply, decreasing output after 2008 as the recession took hold – affordable housing completions have remained relatively-stable. The biggest increase in completions came in the period 2008 – 2010 and relates clearly to the acceleration by the Scottish Government in that period of the Affordable Housing Investment Programme. That would suggest very clearly that the biggest influence on affordable housing numbers is the level of public investment available through what is now termed the Affordable Housing Supply Programme.

Housing land supply has been constrained to a greater or lesser extent for many years, through both the period of growth prior to 2008 and subsequently. If land supply had been a constraint on affordable housing, then perhaps there might have been problems in spending the AHIP/AHSP. This has not been the case. Local Authority Strategic Housing Investment Programmes (SHIP) contain many more potential projects than can be funded and delivered. Where local issues of underspend arose, it has been a simple matter to find projects elsewhere to take up the money.

The Scottish Government's annual bulletin monitoring planning consents for affordable housing shows a consistent pattern of over 70% of all consents annually for affordable housing being for projects delivered entirely by the public sector i.e. Housing Association projects or Council house-building. This reinforces the point 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 subsidy to affordable housing. Where they assist in delivering land or other types and tenures of affordable housing, it remains within the context of delivering mixed-tenure developments which are viable.

Housing land does constitute a constraint on house building generally. Scottish Planning Policy requires planning authorities to ensure the availability at all times of a minimum 5-year supply of effective housing land measured against the housing requirements in their development plans. In reality few Councils succeeded in doing this either in the growth years or more recently during the recession. At 2011, Homes for Scotland's monitoring of housing land supplies across Scotland showed that only 3 or 4 of the 29 mainland authorities have a 5-year effective land supply. The Scottish average is 60% of the required supply; in the worst cases there is less than 40% of the required supply.

In the growth years, the consequence of a lack of supply was not a constraint on affordable output, but a driving up of land prices which drove higher house prices, contributing to the problem of affordability. A second consequence was that it became much harder for Housing Associations to buy land. While this has not yet been a major constraint on output in national terms, it has created a situation where land in the control of Housing Associations is now at a low level. Land supply may therefore become a problem in the future, even if it has not been one up to now. The value of housing land still remains high, especially in stronger market areas, and since these are often also the areas with high affordable housing need the Housing Associations may still have difficulties in acquiring land in the future. However, it is often in these strong market areas where there is most public and political resistance to releasing more development land. Examples of such areas are Edinburgh; East Lothian; North-East Fife; Stirling; East Dunbartonshire; East Renfrewshire; Aberdeen.

Scottish Planning Policy recognised the need to make available land for all types and tenures of housing, and proposed that the solution to land shortages and land prices was that development plans should identify a “generous” land supply. Clearly that generous supply has yet to work through the planning system based on the figures above. More worrying, the slow pace of plan production under the 2006 Act is delaying the identification of these new “generous” supplies. Homes for Scotland’s monitoring of development plan progress, based on the timescales in each Council’s annual Development Plan Scheme, shows that around 75% of plans across Scotland have fallen behind schedule. It will probably be at least three years until comprehensive Local Development Plan coverage exists in Scotland. Whether these plans will indeed identify generous land supplies in the face of public and political opposition remains to be seen.

If land price was a barrier to Housing Associations building land banks, then it might have been expected that they would take advantage of the recession to acquire land no longer being pursued by the private sector. This has happened to a degree, and in addition there has been greater co-operation between public and private sectors to promote mixed-tenure developments where the affordable component could help kick-start the wider development. In addition, the National Housing Trust and Innovation Fund funding streams have encouraged some joint working. However, the Council audits of housing land supply do not suggest that Housing Associations have been very successful in acquiring significant new land holdings.

Even within a constrained market, planning authorities are not contributing to promoting development by processing planning applications more quickly. If the application includes an element of affordable housing, then this is delayed along with the private development, although Housing Associations seem to fare no better in terms of speedy decisions.

All the evidence would suggest that the performance of the private house building sector is not a major constraint on affordable housing output. Undoubtedly more private activity would result in more land coming forward in areas where planning affordable housing policies apply, but there still needs to be the resources available to subsidise social-rented housing. It also needs to be understood within planning and housing authorities that the private sector has limited capability to provide other options with little or no subsidy. Provision such as shared-equity or discounted sale are possible, but in limited quantity and only where Councils accept that these contribute towards meeting affordable needs. That acceptance is far from universal.

The levels of subsidy per unit for affordable housing have fallen sharply, both in terms of Housing Association Grant and the benchmarks for other funding streams. The consequence has been that Housing Associations have been funding higher proportions of the development costs from their own reserves or commercial borrowings. There are clearly limits to how much they can fund in this way. Funds committed in this way clearly are not being used to purchase new land.

Conclusions
Homes for Scotland supports the views of other housing commentators that the principal method of securing more affordable housing is subsidy through the Affordable Housing Supply Programme.

Land for housing has not so far been a significant constraint on delivering affordable housing. However, the price of housing land has meant that the supply of land controlled by Housing Associations and Councils has not been replenished quickly enough and problems may arise in the future.

Particular problems of land supply have been experienced in areas of strong market demand, and in these areas there may well be emerging land supply problems. A generous land supply therefore remains a key future requirement for all housing delivery. It will ensure that all sectors can access sufficient land; that the price of land will be held down.
Land supply is one part of the planning process. The speed and efficiency of planning decision-making in Councils is clearly a concern, and planning reform needs to drive much quicker decision-making.

The financial capability of both Housing Associations and developers to deliver affordable housing is increasingly-constrained.

Q4. 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?

HFS response - Any impact on the health of an organisation's finance will have an impact on its ability to expand. There is undoubtedly a risk that the changes to the welfare system being imposed will risk resulting in higher arrears for an organisation to manage. Higher arrears will impact on gearing ratios and will provide a much less attractive investment for corporate funders/lenders in approving projects going forward. At the very least it could make private borrowing more expensive to reflect the higher risk. With the changes looming and negative feeling/comments about the impact that they will have spreading across the sector, confidence in the rented sector is very likely to be damaged. At a time when provision of mid market and market segments is being encouraged to meet need, we have concerns about the impact this knock in confidence could have on new entrants to this market including private developers. Given that the budget is based on ambitious assumptions for mid market rent to meet affordable housing targets at varying funding caps, this may have an impact on delivery in practice.

Q5. 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?
HFS response - See comments above regarding RPAs. The system in place, with Local Authorities submitting strategic investment plans to central government for sign-off, should

provide sufficient oversight. We would like to see a direct 'route' for the private sector to help deliver in RPAs. We believe that a number of central pots must remain centrally managed such as New Supply Shared Equity and NHT. We would like a central pot for Innovation to continue and be re-introduced into the programme.

Q6. 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?

HFS response - We would promote efficiencies to ensure public funds are spent in the delivery of new homes, and not supporting the organisation that is doing the delivering, and for that reason if the nature of providers shift because of the lower grant rates on offer then so be it. What must be monitored, however, is the delivery of homes where they are needed. We must not let rural communities lose out at the expense of a central Scotland focus. Higher grant caps should be allowed to reflect local circumstances such as higher construction costs in outlying areas.

Q7. 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.)?

HFS response - We are not sure that the 2/3rds social rent split was ever justified. We understand with the criticism from some organisations/commentators (following a misprint in the pre-election manifesto), that the Scottish Government was pressured into defining their commitment to 'affordable housing'; however we would promote the continued use of 'other' affordable tenures to meet the needs identified within local housing strategies. New forms of affordable housing have already demonstrated just what they can achieve through leveraging investment and at a time when housing production is at an all time low, promotion of new supply across all tenures should be the overall focus. As mentioned above, we also have ideas on how a few tweaks to existing programmes could help maximise their potential. At this time getting Scotland out of the recession should be at the forefront.

Q8. 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.

HFS response - Although being sympathetic to the climate change agenda, HFS cannot support the proposal to further increase energy efficient standards of new homes through regulation, at this time. New homes built today are already 70% more energy efficient than they were in 1990. Increasing the standards and therefore costs of building a new home even further when supply and affordability are in crisis is the wrong thing to do at present. Additionally, it does not make economic sense, with the resultant cost of carbon to achieve these proposed higher standards being way above any recognised benchmark value. HFS was pleased that the Scottish Government placed such a strong emphasis on retrofitting existing homes in its draft Sustainable Housing Strategy. New homes built being built today are currently only replacing Scotland's 2.33million existing homes at a rate of around 0.5% per annum. Clearly the big 'wins' for climate change are in upgrading the existing stock. HFS has some useful ideas on how we can work together to ensure climate change targets are achieved. Any decision relating to climate change however, whether in new build or existing homes, must not compromise the housing market or wider economy.