WRITTEN EVIDENCE FROM THE SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS

1 Introduction

1.1 As the national representative body for housing associations and co-operatives in Scotland, SFHA welcomes the opportunity to respond to the Infrastructure and Capital Investment Committee's call for evidence to inform its scrutiny of the 2013-14 Budget. We are pleased that the Committee is focusing its scrutiny on housing spending.

1.2 Housing associations and co-operatives in Scotland own, manage and maintain 46% of the country's affordable rented housing stock and 11% of the total stock. This represents 274,996 homes across Scotland. In addition, they provide a range of broader tenancy sustainment and community regeneration services across the country, from the most densely urban to the most remote rural communities. They operate in some of the poorest communities in our country.

1.3 Housing associations and co-operatives are the principal developers of new, genuinely affordable rented housing in Scotland. Between 2007-08 and 2011-12 Scotland's housing associations and co-operatives completed over 90% of all new social housing built in Scotland.[1]

1.4 This evidence outlines our response to the specific questions provided in advance by the Committee.

2 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?

2.1 Generally speaking it is too early to say. There are two issues currently which can be learned from:

- Many housing associations and co-operatives do not yet have their programme agreements for the current year. The SFHA acknowledges that this situation has arisen due to the implementation time required for the new investment framework. However, it will cause significant delays to site starts. To avoid this in future years, it is imperative that programme agreements are in place of 1st April each year.
- We know of at least one local authority that has decided not to pursue any joint working with their housing association partners. This is regrettable, given that there is only one housing association operating in the area concerned, one with an exemplary track record on development. The SFHA is lobbying on behalf of the association and we are aware that Scottish Government officials share our concerns. The Scottish Government, rightly, wishes to see a spread of

[1] Scottish Government (2012), *Housing Statistics for Scotland 2012*. Available at http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS (accessed 26th September 2012)

developers in each local authority area and we would hope that the guidance issued by the Scottish Government will be adhered to.[2] In terms of local delivery, local authorities and housing associations/co-operatives have been working in partnership for a number of years. To our knowledge, the new arrangements have not affected this, with the exception of the issue highlighted in the preceding paragraph.

[2] Scottish Government (2012), *Affordable Housing Supply Programme (AHSP) Strategic Local Programmes 2012-2015* (HSGN 2012/06). Available at http://www.scotland.gov.uk/Resource/0039/00392609.pdf (accessed 26th September 2012)

2.2 It is the SFHA's view that the programmed expenditure on new affordable housing supply is unlikely to meet the Scottish Government's objective to build 30,000 homes for social rent and other tenures. Many housing associations and co-operatives have indicated to both the SFHA and to the Scottish Government that they are unable to develop new supply at the lower grant rates. Whilst the flexibility introduced to the subsidy framework is welcomed, it remains difficult to deliver genuinely affordable high quality social rented housing at these subsidy benchmarks. At the previous benchmark target level of £64.5k/unit,[3] the rent which had to be charged was broadly affordable to most social rent tenants on low incomes and was sufficient to meet the running costs and loan repayments of a new dwelling in the long term, albeit not in remote rural areas and in some urban settings. The current framework requires housing associations and co-operatives to find an additional £20-25k, either from reserves or additional borrowing. Additional borrowing, if it can be secured, increases the rent which has to be charged to support repayments.

2.3 The SFHA is aware of the increasing challenges for housing associations and co-operatives seeking to access private finance in the current economic climate. We have been exploring members' recent experiences with lending institutions. There appears to be a limited number of potential sources of funding, with most lenders unwilling to lend for more than five years compared to the thirty year terms commonly offered previously. Some lenders are unwilling to lend to anyone other than existing customers and are taking the opportunity to re-price existing loans as a condition of new borrowing. Re-pricing of an existing loan is also becoming common as a condition of consent to a specific action (consent to specific actions being a requirement of most loan agreements). All of this is making it difficult for many in the sector to fund new supply and/or refinance to improve existing stock. SFHA will be seeking to discuss this in more detail with lenders, their representative bodies and with the Scottish Government.

2.4 The Scottish Government has been encouraging our sector to use its reserves to help fund new supply. These reserves have been built up over a long period of time and are earmarked primarily for the future maintenance of stock and for prudent risk cover. They can only be used once and there is limited scope for them to be used for other purposes.

2.5 In addition to the funding challenges created by the current economic climate, there is also the threat to the sector's rental stream, upon which lenders rely, presented by welfare reform. We have previously given evidence to the Committee about the potential impact of welfare reform on our sector. The planned changes and restrictions to Housing Benefit generally will impact on demand for housing, levels of household indebtedness, and potentially increase homelessness. We have highlighted that the combined consequence of the direct and indirect impacts of the reforms will reduce household income in our sector by around £220m in total over the period from now

[3] 3p HAG Subsidy Target 2009-10

until 2016-17.[4] Many/most working age benefit claimants face reduced support under the new Universal Credit, which will be paid direct to the claimant. Currently, Housing Benefit claimants have the right to choose to have it paid direct to their landlord and 96% of tenants in our sector choose to do so.[5] . When the new integrated Universal Credit begins its phase-in from October 2013, rent collection will become more costly, less efficient and more precarious.

2.6 All of this provides the backdrop for a number of stalwart developers in our sector deciding that they cannot continue to develop, given the current terms. This is at a time when the Scottish economy needs the stimulus that investing in new affordable housing supply could provide. In our parallel evidence to the Finance Committee, we have highlighted this economic case and have emphasised that there are significant numbers of shovel ready projects that our sector could bring into if the right funding is in place.[6]

3 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?

3.1 We are not in a position to comment on local authority financial capacity.

3.2 With regard to the research referred to, *The Housebuilding Capacity of Local Authorities and Registered Social Landlords in Scotland*, Bramley et al 2010, we would wish to make some observations.

3.3 SFHA was represented on the steering group for this Scottish Government-commissioned research. We made known our serious concerns about the over-simplification of the main conclusion, i.e. that “social landlords can build more new homes for less”.[7] We emphasised to the Scottish Government that the report did not take into account several significant factors, such as the looming costs of improving existing and new build stock to meet climate change standards, decreasing income through cuts to Housing Benefit and the risks inherent in direct payment if housing costs to tenants, plus the cost of the wide range of services beyond bricks and mortar which associations and co-operatives provide.

3.4 On the day the research was published, SFHA’s Chief Executive, Dr. Mary Taylor, said:

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[4] IS4 Consulting (August 2012), *The Impact of Welfare Reform on Housing Associations and Co-operatives in Scotland*. Available at http://www.sfha.co.uk/component/option,com_docman/Itemid,82/gid,65/task,cat_view/ (accessed 26th September 2012)
[5] Figure provided in answer to a Parliamentary Question on 18th July 2011, posed by Sheila Gilmore MP. Full text of written answer available at: http://www.publications.parliament.uk/pa/cm201011/cmhansrd/cm110718/text/110718w0002.htm#11071842000702 (accessed 26th September 2012).
[6] SFHA (2012), *Evidence in Response to the Finance Committee’s Call for Views on the Draft Scottish Budget 2013-14*.Available at http://www.sfha.co.uk/component/option,com_docman/Itemid,82/gid,80/task,cat_view/ (accessed 26th September 2012)
[7] Bramley et al (2010), *A Study into the House Building Capacity of Local Authorities and Registered Social Landlords*, commissioned by the Scottish Government. Available at http://www.scotland.gov.uk/Resource/Doc/330642/0107261.pdf (accessed 26th September 2012)

"*While we are at the forefront of efforts in maximising the return on the public pound, the SFHA finds this study and its conclusions to be flawed. It was produced using mainly desk top modelling and not tested with the housing providers which it analyses."*

"Housing associations and co-operatives build for and rent to those in greatest need, many of whom have low incomes. It does not make sense to put rents beyond the reach of those in low paid jobs or to rely on Housing Benefit to take the strain. It is more cost effective in the long run to put a decent amount of public subsidy into the construction of homes to keep rents affordable".

Since the research was published, our sector's operating environment has become significantly more challenging. In 2010, one could assume that lenders would continue to have the funds and desire to continue lending to our sector on a broadly similar basis as previously. However, the private finance market now is not nearly as benign as it was in 2010. Long-term borrowing generally is not now available (see 2.3 above).

3.5 In correspondence (unpublished) with the Scottish Government, Professor Bramley has conceded that there are issues with the modelling of the capacity of one of the associations used as a case study in the research. Professor Bramley has conceded that a certain cautionary note is needed about the conclusions of the study regarding baseline level of capacity in the RSL sector – it is likely to be rather below the figure published in the report. A key conclusion from the research was that there is not a load of spare capacity at the moment and that there is a case for creating more headroom with slightly higher rents, i.e. mid market rent levels and not genuinely affordable social rent levels.

3.6 For all of these reasons, we would urge the Scottish Government not to predicate its projections about the house building capacity of our sector on the 2010 research.

4 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?

4.1 The SFHA is unaware of any national shortage of land availability.

4.2 In a small number of local authority areas, where high market pressure exists, there is a limited supply of land, but not to the extent where this would pose any short-term issue.

4.3 In more remote areas, there remains a shortage of land that can be developed with reasonable infrastructure costs.

4.4 Many of our members report that S75 sites (where land is provided by a developer at no cost as a condition of planning) are stalled due to the developer's unwillingness to develop housing for sale, which is in turn caused by market conditions. These sites will play a more significant role in future if subsidy targets are to stay at the existing low level. It is important that the planning system continues to press for such contributions.

5 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?

5.1 We would agree that while "mid rent" used for the National Housing Trust is pitched at Local Housing Allowance (LHA) levels, this should not create affordability issues for the target client group deemed by the provider to be able to afford it (i.e. where there is a local market for the product). However, any future changes to the LHA may create its own set of affordability issues for mid market rent.

5.2 As we have referred to above, it is proposed that Universal Credit will be paid direct to the claimant and that it will be paid monthly in arrears. Although discussions are continuing between the Department for Work and Pensions (DWP) and social landlord representatives as to how to protect vulnerable tenants from getting into arrears with their rent, we remain to be convinced that sufficient protection will be in place to ensure that support for rent costs will reach landlords. SFHA is working closely with the Scottish Demonstration Project[8] in an advisory and support capacity, in order that the lessons learned can be shared with the sector, subject to DWP permission.

5.3 Despite informed projections having been made about the impact of direct payments on rent arrears in our sector, it remains a huge unknown.[9] We know that lenders share our grave concerns about the potential impact, as they have lobbied alongside us throughout the passage of the legislation. We await the learnings from the Scottish demonstration project on direct payment and to this end, we are working closely with Dunedin Canmore HA as the project rolls out. The fact remains that, as the new integrated Universal Credit begins its phase-in from October 2013, rent collection will become more costly, less efficient and more precarious. This will be of serious concern to lenders, who have up until now viewed our sector's revenue stream as secure. This will exacerbate the existing challenges for our sector in procuring finance for developing new supply and for reinvesting in existing stock.

5.4 Reductions in HB will affect those on the lowest incomes most. As well as having a detrimental effect on quality of life, many will be forced to choose between many of life's essentials such as clothing, food, heating or their rent. Again, our members expect to see a rise in rent arrears and are preparing for this as far as is possible in

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[8] Dunedin Canmore HA is participating in the DWP demonstration project on direct payment, affecting only their tenants in Edinburgh who are of working age, of whom there are around 1,800. The Scottish project commenced in July 2012 and will run through to July 2013.

[9] IS4 Consulting (August 2012), The Impact of Welfare Reform on Housing Associations and Co-operatives in Scotland. Available at http://www.sfha.co.uk/component/option,com_docman/Itemid,82/gid,65/task,cat_view / (accessed 24th August 2012)

terms of raising tenant awareness, tenancy support etc. We are lobbying the Finance Committee to recommend increasing the budget for the People and Communities Fund and to make this available for tenancy sustainment initiatives. [10]

5.5 The under occupancy penalty 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. Whilst increased funding has been made available for Discretionary Housing Payments by the DWP, it is unlikely to be sufficient for the anticipated level of demand and is in any case only a short term remedy. So many households will face having to pay the "bedroom tax" from a decreased total household income, again forcing them to face the "heat or eat" decisions referred to above.

5.6 To sum up, Welfare Reform, in all of its many facets, will impact on our members revenue income and therefore upon their ability to meet loan repayments.

6 Will the new system of multi-year local Resource Planning Assumptions retain sufficient central oversight to remain 'strategic' in a system where more than 4/5 of the affordable programme is delivered locally?

6.1 Local authorities have performed an enabling role in housing development strategy for a number of years. However, it is imperative that the Scottish Government retains overall control, to ensure that its national strategic priorities are delivered.

6.2 With regard to the "multi-year" local Resource Planning Assumptions, at present have budget certainty in place for 2012-13 through to 2014-15. We understand that the Comprehensive Spending Review for 2015-16 will take place in 2013. We would appreciate early confirmation that the Scottish Government will honour its commitment to a rolling 3 year programme to allow housing associations and co-operatives to plan for future years and meet the required completion dates, i.e. 31st March of the financial year that the spend is allocated.

7 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?

7.1 As we have referred to above, the number of developing housing associations and co-operatives has already decreased. The sector cannot continue to provide new genuinely affordable social rented homes at current subsidy levels. As the number of developing associations continues to fall, there is no guarantee that the numbers of developers remaining can cover the whole of Scotland. While there could be a case made for a smaller number of developing organisations, it is precisely those organisations who choose to continue to develop that will ultimately be financially weaker as a consequence of developing in the current climate.

8 Are the underlying conceptions and prioritisation of housing need (e.g. 2/3 social rent in the programme) reasoned and reasonable? Are the spatial

[10] SFHA (August 2012), *Evidence in Response to Finance Committee's Call for Evidence on the Draft Scottish Budget 2013-14.* Available at http://www.sfha.co.uk/component/option,com_docman/Itemid,82/gid,80/task,cat_view/ (accessed 26th September 2012)

allocations of the RPA consistent with an acceptable way of determining need (e.g. affordable need, regeneration, homelessness, etc.)?

8.1 SFHA is not aware of any evidence-based methodology being followed to determine what proportion of the Affordable Housing Supply Programme should be for social rent and what should be for Intermediate Rent and other forms of provision intended for higher earning households. We understand that the Scottish Government, in amending its manifesto commitment to build 30,000 socially rented homes, set a revised target of 20,000 socially rented homes and 10,000 other tenures. This proportion was arrived at by considering the existing proportion of social rent at the time and setting an upper limit for the proportion of other tenures. While the assumptions may well be reasonable, the SFHA would wish to highlight that they are not reasoned.

8.2 SFHA is not aware of any modelling that has been undertaken to calculate the number of households currently in housing need who could support an intermediate rent tenancy without the need for Housing Benefit or its successor.

8.3 In terms of the spatial allocations for the Resource Planning Assumptions, then hitherto, the answer is no. The SFHA was part of the SHIF 2 Group (Strategic Housing Investment Framework) which met over the summer of 2012 to consider a scientific rationale for the RPAs. The report from the group has been finalised and is with COSLA for consideration. However, we have noted that this would not apply to the two TMDF authorities (Edinburgh and Glasgow). We are keen to have an opportunity to comment on the conclusions of this exercise.

9 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.

9.1 Housing associations and co-operatives in Scotland have a history of leading on energy efficiency and in addressing fuel poverty. They continue to have the most energy efficiency housing in Scotland of all sectors. [11]

9.2 Housing associations and co-operatives have made significant strides towards meeting the energy efficiency standards set in the Scottish Housing Quality Standard, investing considerable sums without any funding being made available by the Scottish Government in order to enable social landlords to retrofit their existing homes.

9.3 While the SFHA generally supports the introduction of the forthcoming Energy Efficiency Standard, funding and finance are major issues. More generally, the proposals come at a time when social landlords face considerable financial challenges as already stated.

[11] Scottish Government (2010*), Scottish House Condition Survey: Key Findings 2010*, figure 10. Available at http://www.scotland.gov.uk/Resource/Doc/363471/0123368.pdf (accessed 26th September 2012)

9.4 It is therefore vital that the Standard and the associated level of investment can be funded through a combination of housing association and co-operatives maintenance programmes and through available grants and tariffs. We believe that as the proposals stand that is not the case. While ECO will help to fund some investment in difficult to treat properties (and social landlords will continue to prove adept at drawing in funding through initiatives such as the SFHA Carbon Portal), there is too much uncertainty about ECO to assume that the significant costs that many landlords will face can be met by either ECO, their investment programmes or a combination of the two.

10 Concluding Comments

10.1 The financial climate in which housing associations and co-operatives operate has changed markedly in recent times and continues to change. We are finding private finance more difficult to obtain, more expensive and for shorter periods.

10.2 Welfare reform and direct payments of housing costs to households pose a significant risk to housing associations' and co-operatives' income streams.

10.3 Developing at current subsidy benchmarks is unsustainable.

10.4 The sector's reserves have been built up over a long period of time. They can only be used once and there is limited scope for them to be used for purposes other than those they have already been designated for.

10.5 The SFHA continues to make the case for a higher subsidy and additional resources to ensure that the people of Scotland all have access to a safe, warm and affordable home. The Scottish Government has undertaken to fund 30,000 homes over the course of the parliament. To put the scale of the shortage in perspective, there are 335,000 households on waiting lists in Scotland.[12]

[12] Figure provided to SFHA by the Scottish Housing Regulator.