Funding for the Supply of New Affordable Housing

Key points

1. This submission focuses on the draft budget for next year and beyond in relation to money for new affordable housing in Scotland. This is the largest element within the overall allocation for housing, especially when the £250m (over three years) for housing within the local government settlement is taken into account.

2. Whilst we do not yet know the precise annual allocations for the overall housing supply budget, we estimate that the year on year cut between 2011/12 and 2012/13 will be around 32% - down from £366.5m to £248m.

3. Comparing the previous and forthcoming three-year spending review periods, £1.7bn was allocated between 2008/09 and 2010/11. This is down 63% to £628m between 2012/13 and 2014/15.

4. Whilst the current financial climate mean cuts were obviously expected, it is nonetheless extremely disappointing that affordable housing has again taken a disproportionately big hit.

5. Despite the cuts, the Scottish Government says it can meet its target of 18,000 affordable homes over the three years of the spending review period and 30,000 over five years (i.e. 6,000 per year). This is primarily because "per unit" grant rates for social landlords have been massively reduced, and in CIH Scotland’s view it remains very unclear whether these grant rates are sustainable in the medium and longer term future.

What does “affordable housing” mean?

6. The Scottish Government uses this term to refer mainly to housing produced as a result of some kind of government intervention. So this is primarily social rented housing, housing at "mid-market rent" (e.g. through the National Housing Trust) and shared equity, where people buy a 60%-80% share with the remainder subsidised by government. The SNP’s Election manifesto referred to 6,000 homes for social rent, but it is now clear that this was a mistake.

7. The Housing Minister recently announced that within the overall 30,000 target over five years, it was the intention that at least two thirds of this should be social rented housing. CIH Scotland welcomed this pledge: whilst provision such as mid-market rent will be important in helping people on low-to-middle incomes who can’t buy or rent privately, social rented housing will remain crucial for all those who, realistically, have no other options.

Affordable housing budget this year (2011/12) and from 2012/13 to 2014/15

8. Now that funding of social rented housing has moved to a “payment on completion” system, the vast majority of money within the housing supply budget will always be funding developments approved in previous years. So new approvals, as announced recently under the Innovation and Investment Fund (see below), do not come out of this year’s budget but out of the budget for future years when these projects are completed.

9. This year £366.5m is in the housing supply budget. This is made up of £268.5m in the mainstream Scottish Government programme, and £98m allocated (within the local government settlement) to Edinburgh and Glasgow Councils for onward allocation to housing associations. The great majority of this money is being spent on funding developments approved in previous years and self-funded by councils and housing associations.

10. In the next three years, the figures for housing supply announced in the draft budget for Housing and Regeneration are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
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<tbody>
<tr>
<td>2012/13</td>
<td>£155.3m</td>
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2013/14 £133.5m
2014/15 £160m

11. This totals £448.8m. Housing Minister Keith Brown stated on 22 September that of this £448.8m, at least £378m would be for housing supply. [We assume most of the remainder is for projects other than new building which support economic growth – most notably regeneration projects.]

12. To this £378m can be added a further amount of £250m over three years within the local government settlement, specifically for housing supply:

<table>
<thead>
<tr>
<th></th>
<th>2011/12</th>
<th>Total for period 2012/13 to 2014/15</th>
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</thead>
<tbody>
<tr>
<td>Main SG programme</td>
<td>£268.5m</td>
<td>£378m</td>
</tr>
<tr>
<td>Within local government settlement</td>
<td>£98m</td>
<td>£250m</td>
</tr>
<tr>
<td>Total</td>
<td>£366.5m</td>
<td>£628m</td>
</tr>
</tbody>
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13. In our joint spending review submission (with Shelter Scotland) we argued that in the context of current, much-reduced “per unit” grant rates for councils and housing associations, a minimum of £610m would be needed for the Scottish Government to achieve its targets over the three year period, subject to those grant rates being sustainable over that period.

What does this reduced funding mean?

14. Whilst expecting reductions, the housing sector has been very disappointed at the scale of the cuts in the housing supply budget from the current spending review period to the next one - £1.7bn down to £628m. To a large degree, though, the scale of the cut had been feared for some time, because the almost complete lack of new approvals in the early part of this year meant that no commitment to pay out next year was being built up – you can only spend on what has previously been approved.

15. With “per unit” grant rates at £30,000 for councils, and having been slashed to a benchmark figure of £40,000 for housing associations, the Scottish Government says that there will be sufficient funding for their 6,000 per year target to be met. Given that around 1,500 of these homes are expected to be mid-market rent homes built with little or no subsidy (mainly through the National Housing Trust), CIH Scotland recognises that the Scottish Government’s figures do add up if such grant rates are sustainable in the longer term (see below).

Innovation and Investment Fund

16. The Scottish Government has reason to be confident about its targets being met even through the much reduced funding over the spending review period. Its recent announcement of the £111.7m Innovation and Investment Fund (IIF) saw approval given for 3,462 homes. This will be supplemented by 848 homes approved through the separate arrangements in Edinburgh and Glasgow. In all, this means 4,310 homes approved, of which 3,194 (74%) are to be for social rent.

17. However, the big unknown – in CIH Scotland’s view – is for how long current grant rates are sustainable. For councils, their £30,000 grant rate can be supplemented by available land, other funding such as receipts from council tax on second homes, and favourable long-term borrowing rates through the Public Works Loans Board. Even then, we don’t know how many councils can sustain this over a three (let alone five) year period.

18. But housing associations generally have only government grant and borrowing from private finance sources. This year grant has been reduced from £66,500 to a benchmark figure of £40,000 per unit. Our understanding from a number of successful bidders to the IIF is that many bids were one-offs which could not be replicated in the future – perhaps because of
available land or once-only use of reserves (most reserves are set aside for long term major repairs and improvements).

19. CIH Scotland is working with SFHA and ALACHO (the Association of Local Authority Chief Housing Officers) to try to ascertain what capacity councils and housing associations have to build social rented housing at these grant rates over the next five years. Notwithstanding what we find, we believe that the Scottish Government should not make assumptions about such subsidy rates being sustainable.

20. We will also be trying to ascertain whether, over time, certain types of more expensive provision are starting to be squeezed out of the picture. Social rented housing in remote and rural areas, specialist housing for older people and housing which is fully accessible to wheelchair users are examples of housing which tends to be more expensive, and it will be crucial for us to monitor whether these types of provision receive disproportionately less attention within affordable housing new build programme in the coming years.

Further information

21. CIH Scotland would be happy to supply any further information or comment the Committee may require in its consideration of the housing supply element of the draft budget.