



RESOURCES FOR INVESTMENT IN AFFORDABLE HOUSING IN SCOTLAND

**CHARTERED INSTITUTE OF HOUSING SCOTLAND (CIH) AND SHELTER
SCOTLAND SUBMISSION TO THE SCOTTISH GOVERNMENT SPENDING
REVIEW 2012-2015**



Shelter Scotland

Shelter Scotland believes that everyone should have a home where they can thrive. Our work won't stop until there's a home for everyone.

We help people fight for their rights, get back on their feet, and find and keep a home. We also tackle some of the root causes of bad housing by campaigning for new laws, policies and solutions.

Shelter Scotland

6 South Charlotte Street

Edinburgh

EH2 4AW

www.shelter.org.uk

Charity Number SC002327

The Chartered Institute of Housing in Scotland

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse membership of over 22,000 people worldwide, with over 2,500 in Scotland. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. We also represent the interests of our members in the development of housing policy and aim to be the first point of contact for anyone involved or interested in housing.

Chartered Institute of Housing in Scotland

4th Floor, 125 Princes Street

Edinburgh EH2 4AD

T: 0131 225 4544

www.cihscotland.org

Charity Number 244067/R

CHARTERED INSTITUTE OF HOUSING SCOTLAND (CIH) AND SHELTER SCOTLAND SUBMISSION TO THE SCOTTISH GOVERNMENT SPENDING REVIEW 2012-2015

Summary

- i. Capital investment in new affordable housing has been one of the main victims of the reductions in the Scottish Government's budget. The overall housing budget has been cut by 19% in the current year – in reality this is a cut of 30% once earlier adjustments are taken into account.
- ii. The Scottish Government has firm commitments to fund 6,000 new homes each year over the period of the spending review.
- iii. Based on these commitments, we have argued that an annual programme outlined below best reflects the balance between meeting the most acute outstanding needs and the ability of housing organisations to deliver:
 - No less than 4,000 new socially rented homes each year
 - 1,000 homes for subsidised home-ownership
 - 1,000 intermediate rented homes through the National Housing Trust.
- iv. In addition, we have estimated the cost of making good the shortfall in housing supply in the current year (2011/12) set against the Scottish Government's own targets. We have allocated the shortfall reduction to the first two years of the Spending Review in line with the Scottish Government's targets.
- v. So the Spending Review needs to make allowance for approvals of new housing of not less than the following amounts (all in current prices):
 - £220m in 2012/13
 - £220m in 2013/14
 - £170m in 2014/15
- vi. These amounts are **only** for new affordable homes based on the Scottish Government's own published commitments. They fall short of what CIH Scotland and Shelter Scotland have estimated is required to address the backlog of housing need. They also do not include the need for the housing and regeneration budget to fund other housing priorities.

Introduction

1. This submission sets out the views of CIH Scotland and Shelter Scotland on the resources required for new affordable housing in Scotland during the forthcoming Spending Review period, i.e. from 2012/13 up to and including 2014/15 to allow the Scottish Government to meet its own housing supply targets.
2. We have deliberately chosen to focus on the budget for the supply of new affordable housing as this is crucial to ensuring good quality housing for the huge number of households who do not have the resources to provide themselves with satisfactory housing. Although the number of new houses built in any one year is only a small proportion of the total stock, it is important to ensure that new additions reflect the overall growth in housing need. The allocation for affordable homes also represents the lion's share of the overall Scottish Government budget for housing. So, in our view, the budget for new affordable housing is the litmus test of the Scottish Government's commitment to housing investment.
3. This is certainly not to imply that other housing and related expenditures are "softer" targets. We recognise the importance of investment in energy efficiency; in area-based regeneration; and in appropriate housing for disabled people, to take three examples. The local government budget has, within it, crucial spending assumptions on homelessness and housing support for vulnerable people which are central to meeting the Scottish Government's longstanding commitments on homelessness. It has not been possible to estimate spending needs in those areas because the data on service need are not available in the same way as for housing supply and the Scottish Government's commitments are not as quantifiable.
4. Our starting point is the relevant housing targets in Homes Fit for the 21st Century¹ and the SNP Manifesto for the Scottish Parliament election in 2011. Homes Fit for the 21st Century committed the Scottish Government "to deliver 18,000 new affordable houses over the next 3 years" i.e. over the period 2011/12 to 2013/14. The SNP Manifesto mentions two further targets – "funding construction of 5,000 new council homes in the next parliamentary term" and "to build 6,000 new socially-rented houses each year".
5. The Manifesto targets extend over a longer period than 3 years and there is some confusion between the target for socially-rented housing and the earlier target for affordable housing – a broader concept which includes subsidised owner occupied and

¹ Homes Fit for the 21st Century – The Scottish Government's Strategy and Action Plan for Housing in the Next Decade: 2011/20, 2011

privately rented housing as well as socially-rented housing. The public and opposition parties may wish to judge the performance of the current administration against the specific terms of the undertakings in the SNP Manifesto and, in particular, the commitment in relation to socially-rented housing. **However, for the purpose of costing a housing programme we have taken all the commitments together to assume that the overall objective is to build 6,000 affordable homes a year but with significant focus on socially rented homes in line with the manifesto commitment.** Our understanding of the term affordable housing is set out in paragraph 7 below.

6. It is important to note that this target is itself well below what Shelter Scotland and CIH Scotland forecast is required to address the outstanding levels of homelessness and reduce house waiting lists. At the time of the 2007 Spending Review, Shelter Scotland and CIH Scotland, together with various other bodies,² identified a need for 10,000 affordable homes per annum to meet these objectives – a target which was not achieved. This estimate was based on the work of a team of housing economists at Heriot Watt University, in the most ambitious housing needs assessment undertaken so far in Scotland³. In many respects the situation has deteriorated since then, especially since the financial crisis of 2008 which has had a major impact on new construction and the ability of new households to find housing. However, we have chosen to estimate budgetary requirements using the 6,000 per annum target since Ministers are clearly committed to this.

The Affordable Housing Programme

7. Until relatively recently, the term “affordable housing” has generally referred to socially-rented housing i.e. housing built with public subsidy and managed by local authorities or housing associations with rents substantially below those charged by private landlords. In recent years, there has been an increasing interest in helping aspiring owners to buy their first house through a variety of schemes which generally require a lower level of subsidy per house than new socially-rented housing.⁴ Additionally, intermediate rented housing seeks to provide privately rented housing at somewhat reduced rents.⁵

² The 2007 Comprehensive Spending Review in Scotland – Submission from Shelter Scotland, Scottish Churches Housing Action, the Chartered Institute of Housing and the Scottish Council for Single Homeless, Shelter Scotland 2007

³ Local Housing Need and Affordability Model for Scotland, November 2006

⁴ There are a variety of schemes known collectively as the Low Cost Initiative for First Time Buyers (LIFT) which provide subsidies for prospective owner occupiers. The most important of these for

8. Our view is that all three types of “affordable housing” have a role to play in meeting housing need, demand and aspiration but we need to ensure the right balance in any programme. Socially rented housing is intended to provide a long term solution to people with high levels of housing need, most of whom are low income households. Subsidies for first time buyers and intermediate rented housing can play an important role in helping households who cannot afford to buy at market prices at the present time but have reasonable expectations of being able to do so in due course. In our view, as in the past, socially rented housing must take priority. With 160,000 households on council house waiting lists and over 10,000 stuck in temporary accommodation there is scarcely any justification for a radical reduction in the supply of new socially-rented homes. The internationally-acclaimed commitment to equalise homelessness rights will fall to be met during this Spending Review period and, even with renewed attention on preventing homelessness, the single most important factor in meeting the commitment is the flow of lets of socially-rented housing. Therefore, for the purposes of this submission we argue that the target of 6,000 affordable houses per year over the period 2012/13 to 2014/15 should be based on:

- 4,000 socially rented houses on the basis that this is what meets the most acute housing needs and that there is still a very large number of people for whom even subsidised owner occupation and privately-rented housing will be out of reach;
- 1,000 subsidised owner occupied houses in line with the anticipated programme for 2011/12 to help first-time buyers break into the housing market;⁶
- 1,000 intermediate rented houses on the assumption that this will help some of those households who cannot afford to buy in the current market circumstances but might reasonably expect to do so in the next 5 to 10 years⁷.

present purposes is the New Supply Shared Equity (NSSE) scheme under which the equity in the property is shared between the purchaser and the Scottish Government.

⁵ This is also sometimes known as mid market rented housing.

⁶ See Investment in New Affordable Homes in Scotland in 2011/12: Briefing from Shelter Scotland, 2011

⁷ Given recent experience and the fact that is *such* a new initiative this estimate also takes account of housing organisations’ capacity to deliver.

9. A target of 4,000 socially rented homes is relatively modest when judged against losses of 1,600 homes per year to the sector through the Right to Buy in 2010 and 2,000 through demolitions of council houses in 2009/10. A programme of 4,000 houses would be just a little above treading water⁸.

The 2011/12 Housing Budget and Affordable Housing Programme

10. The Scottish Government's Budget for 2011/12 reduced planned expenditure on housing and regeneration by some 19% (in reality this is a year on year cut of 30% once adjustments for previous carry forwards are made), as compared to an overall Scottish Budget reduction of 3%-4%. This disproportionate cut, especially if it is not rectified for 2012/13 to 2014/15 in the imminent Spending Review, raises serious questions about the Scottish Government's ability to deliver on its affordable housing targets.
11. The 2011/12 Budget also introduced new arrangements for funding new affordable housing, including the establishment of an Innovation and Investment Fund (essentially a challenge fund for councils, housing associations and other potential housing providers) to replace the previous Housing Association Grant system and separate funding for council house building. The Scottish Government hopes that these new arrangements will result in significantly lower subsidy levels as far as housing association new building is concerned. In addition to this Fund, resources will be separately available for new building by housing associations in Glasgow and Edinburgh (under arrangements for these two councils to be responsible for funding housing association investment programmes in their areas) and for subsidised new building by private developers. Based on Scottish Government published information and subsequent advice, our understanding is that the value of new approvals in 2011/12, as things currently stand, is likely to be in the order of £75-£80m.
12. Final details of the number and type of houses approved under these arrangements will be announced in September. However, a recent analysis by Shelter Scotland⁹ suggests that the number of approved socially rented houses might be in the order of 1,500, a dramatic reduction from the 5,000-6,000 starts in recent years, and that there might be 1,000 new subsidised owner occupied houses, a slight increase from recent levels. The National Housing Trust's scheme for intermediate rented housing, designed to let

⁸ In fact, it may not even be as good as that since the data above do not include RTB sales and demolitions from housing associations, not least in those council areas which have seen all the stock transferred to Registered Social Landlords.

⁹ Investment in New Affordable Homes in Scotland in 2011/12: Briefing from Shelter Scotland, 2011

housing over a period of 5-10 years on short assured tenancies at rents of, on average, 84% of market rents, is still in its early stages and the number of expected additional approvals in 2011/12 is, at present unclear¹⁰. Overall, on current information, it seems highly likely that approvals of new housing as part of the 2011/12 programme will fall well short of the 6,000 target and that, in particular, there will be a dramatic reduction in approvals of new socially rented housing. If this is the case then, unless there is a considerable increase in the number of approvals made this year over and above these initial plans, there will need to be additional resources allocated in the forthcoming Spending Review to rectify this deficit.

New Affordable Housing Programme - Budgetary Requirements for the Spending Review Period 2012/13 to 2014/15

- 13.** In order to cost these programmes, it is necessary to apply unit cost subsidy rates for the respective elements. In its planning for 2011/12 the Scottish Government used benchmark subsidy figures of £40,000 per house for housing association houses and £30,000 per house for council houses. We have assumed that 1,000 of the 4,000 social rented houses will be provided by councils (in line with the Manifesto target) and the remaining 3,000 by housing associations. For subsidised owner occupied houses, a subsidy of £20,000 per house has been assumed based on data provided by the Scottish Government. The only Scottish Government funding for National Housing Trust intermediate rental housing is the guarantee provided for local authority costs and it is impossible to express this as a cost per house since it is unclear how often this guarantee might be used, if at all. For our costing exercise, we have assumed a nil cost.
- 14.** The current benchmark subsidy figure for housing association new build housing quoted above is substantially below the actual average subsidy previously provided through the Housing Association Grant (HAG) regime. In 2007/08, the average subsidy was some £85,000 per house i.e. over double this benchmark figure. The Scottish Government approach is supported by academic modelling work which suggests that housing association output could be sustained at much lower levels of subsidy than provided by the HAG regime if combined with annual rent increases of 2.5% over RPI and no further growth in management costs. In practice, these assumptions, particularly on the

¹⁰ The Scottish Government website gives some details of phase 1. The houses are to be procured from developers with 65%-70% of funding coming from participating councils and the remainder from developers under the aegis of a Special Purpose Vehicle. The Scottish Government guarantees the council funding. At present, there are 7 councils participating in the scheme. No houses have currently been completed, but the first specific scheme of 50 houses was launched recently. The Scottish Government has said that phase 1 will deliver a maximum of 1,000 houses

affordability of rents, are highly questionable over any protracted period. But we have nevertheless used the Scottish Government benchmark subsidy figure mentioned above. In addition, building significant numbers of intermediate rented houses with no subsidy is, in our view, likely to be even more challenging but as indicated above, we have allowed for a contribution of 1,000 houses per annum over the Spending Review period. In other words, in making the estimates throughout this submission we have erred on the optimistic side. To the extent that this optimism is unfounded then budget requirements will need to be adjusted upwards.

- 15.** Para 12 above refers to the need to fund additional socially-rented housing to meet the deficit in 2011/12 if the Homes Fit for 21st Century target of 18,000 affordable houses over the 3 year period 2011/12 to 2013/14 is to be achieved. We estimate that there is likely to be a deficit of 2,500 socially rented houses over this period i.e. 1250 per annum in each of 2012/13 and 2013/14.

- 16.** On this basis, we would need provision along the following lines for each year for the basic programme, which assumes that 1,000 intermediate rented houses are funded at nil cost to the Scottish Government. However, although the Scottish Government has said that Phase 1 of the National Housing Trust initiative will deliver a maximum of around 1,000 there is no guarantee that this figure will be reached in 2011/12 and no guarantee that any successive phases (as yet unannounced) will deliver 1,000 houses per annum from 2012/13 to 2014/15. If, in practice, the National Housing Trust is unable to deliver 1,000 houses per annum, then it will be essential for the Scottish Government to provide additional resources for socially rented housing to meet this deficit in addition to the shortfall mentioned in para 15 above.

Budget requirements for new affordable housing 2012/13 to 2014/15		
Type of Affordable Housing	Number of Homes Required Each Year to Achieve Target of 6,000 Affordable Houses	Estimated Cost Using SG Benchmark Figures £m
Socially Rented Housing by Councils	1000	30
Socially Rented Housing by Housing Associations	3,000	120
Subsidised Owner Occupied Housing	1000	20
TOTAL	5,000¹¹	170

17. In addition, the cost of meeting the expected supply deficit arising from 2011/12 would amount to **£50m of additional approvals per annum for 2012/13 and 2013/14¹². This gives a total financial commitment, in current prices, of £220m linked to new approvals for 2012/13 and 2013/14 and £170m for 2014/15.** It is important to bear in mind, however, that these approvals will have budgetary implications in the following years – see para 19 below – depending on the profile of expenditure for each of the various types of programme.¹³

¹¹ As stated previously, this is less than 6,000 because the 1,000 intermediate rented homes are assumed to have a nil cost for Scottish Budget purposes and therefore do not appear in this table.

¹² This figure would reduce to the extent to which there are further approvals made during the course of 2011/12 not included in existing commitments deriving from the Innovation and Investment Fund, the Transfer of Management Development Funding and the Private Sector New Supply Shared Equity Scheme.

¹³ It would be helpful if the Scottish Government clarified the assumptions it uses for translating commitments to new approvals in a specific year into estimated budgetary commitments in that and subsequent years. Our understanding is that bulk of expenditure on socially-rented housing, especially under the new “challenge fund” arrangements, is likely to take place in the following year or years whereas new housing approvals under the private sector new supply shared equity scheme generate most expenditure in the year in which the approvals take place.

Conclusions

- 18.** In order to meet the Scottish Government's targets for new affordable housing, we estimate that the Spending Review will need to include a commitment to fund new approvals of the order of £220m per annum in 2012/13 and 2013/14 and £170m in 2014/15 (see para. 19 below). These figures are based on a reasonable split of the affordable housing programme into its component parts (see para 8 above) and the indicative subsidy levels used by the Scottish Government for the 2011/12 programme (see para 13). These estimates compare with a Scottish Government commitment in the order of £75m-£80m for new approvals in 2011/12. It is clear that a substantial increase in the level of commitment is required.
- 19.** The figures presented above are estimates of the value of the commitments required to meet the Scottish Government's targets for new affordable housing, which are always expressed in terms of planned approvals in the year in question. Because of the time required to construct new housing, the actual expenditure linked to any specific programme of new approvals is likely to be spread over a number of years. In particular, actual expenditure in 2012/13 is likely to be heavily influenced by the relatively modest level of approvals envisaged for 2011/12 (see para 12 above) and it is therefore vital that the Spending Review allows for a significant increase in the overall housing and regeneration budget in the following two years i.e. 2013/14 and 2014/15.
- 20.** This submission has focused on housing supply because of the clear shortage of good quality, affordable housing. But the overall Scottish Government Housing and Regeneration budget, together with earmarked housing expenditure included in the Local Government budget, also needs to include provision for many other types of expenditure on housing programmes. Key priorities include:
- support for regeneration and the wider role of housing associations
 - tackling empty homes
 - homelessness and housing support
 - developing a "housing options" approach to access to housing
 - funding for adaptations and related work for disabled persons
 - energy efficiency programmes.
- 21.** 2011 sees the most challenging spending review since devolution in 1999. This submission has recognised that reality, proposing a programme only based on the Scottish Government's own very recent commitments. We have taken at face value ministers' assurances that output can be sustained at lower subsidy levels than have been the case hitherto and we have included, as part of the programme, the contribution

of a new form of privately-rented or intermediate housing, albeit at lower levels than the Scottish Government appears to have assumed. In other words, we are running with the grain of the Scottish Government's aims and of fiscal reality. So the programme and spending needs set out in this submission can be considered the minimal position needed. Anything less would be an unjustifiable rebuff to Scotland's many homeless and badly-housed people.