Shelter
Scotland

Investment in New Affordable Homes in Scotland in 2011/12

Briefing from Shelter Scotland: June 2011

Summary of Key Points

- The Budget for Scottish housing and regeneration has been reduced by 31% in 2011-12.

- In the Budget, the Scottish Government pledged to deliver 6,000 new affordable homes in 2011-12. "Affordable", by the Scottish Government's definition, includes homes for low cost home-ownership and a new form of "intermediate" rented housing as well as socially rented homes. [1]

- Our estimates suggest that, of those 6,000 affordable homes, just over 1,500 will be socially rented homes from councils and housing associations; around 1,000 will be for subsidised home-ownership and the remainder (around 3,500) will have to be intermediate rented homes through a new initiative called the National Housing Trust.

- In recent years the bulk (around 80%) of the public housing investment programme has been directed towards socially rented housing. In 2011/12, however, only 25% of new approvals will be socially rented housing, marking a dramatic shift in housing policy.

- There is likely to be demand for subsidised owner occupation and intermediate rented housing but both benefit households on higher incomes than those who access socially rented housing.

- In particular, a lot of emphasis is being placed on the new National Housing Trust to deliver more than half of the programme. It will produce homes let on short term tenancies and at rents at only a little below market levels. Rents can be 60-90% higher than those for socially-rented homes.

[1] This estimate contrasts starkly with the commitment in the SNP Manifesto published for the 2011 election which states that: "Overall, our aim is to build over 6,000 new socially rented houses each year". "Socially rented homes refers only to those homes rented out by councils and housing associations on Scottish Secure Tenancies at rents well below market level and this is a much more specific (and ambitious) commitment than that to produce 6,000 affordable homes a year.

- Shelter Scotland does not believe that this dramatic shift in priorities can be justified while over 10,000 homeless households remain in temporary accommodation. The National Housing Trust is an innovative and welcome development but it is, in effect, providing a new form of private renting and should be ***in addition to***, not instead of new socially rented homes.

The Scottish Government's Investment Plans

The Scottish Government's recently published Strategy and Action Plan for Housing – "Homes Fit for the 21st Century" [2] – states that "we aim to deliver 18,000 new affordable houses over the next 3 years" funded by an Innovation and Investment Fund, a New Supply Shared Equity Scheme for private developers and funding through the National Housing Trust to deliver homes for "intermediate rent".

However, at the present time, the Scottish Government has only brought forward and received approval for a detailed budget for a single year – 2011/12. In chapter 8 of its publication "Scotland's Spending Plans and Draft Budget 2011/12" it stated "we will build 6,000 new affordable homes [in 2011/2012] including for new social tenancies". This briefing focuses on this published target and draws on additional information provided on the various funding streams and our understanding of how they will operate in practice.

Overall Scottish Government Funding for Housing and Regeneration – 2011/12

The Scottish Government's Draft Budget for 2011/12, published in November 2010, identified an overall housing and regeneration budget of £394m in the Health and Wellbeing Portfolio. In addition, the local government financial settlement announced in December 2010, identified a further £136m of ring fenced grants to local authorities of which the most relevant component for housing investment is the £98m allocated to Glasgow and Edinburgh which have taken over responsibility for funding housing associations and other suppliers in their areas under the Transfer of the Management of Development Funding (TMDF) arrangements. A further £6m was added to the 2011/12 housing budget in the political discussions before the budget was approved in early 2011.

The total overall Scottish Government budget for housing in 2011/12 for housing and regeneration is, therefore, £536m[3]. This budget is intended to cover a variety of types of expenditure including funding for regeneration schemes and promotion of energy efficiency. It also includes funding for affordable housing which has already been announced and which is in the process of planning and

[2] "Homes Fit for the 21st Century: The Scottish Government's Strategy and Action Plan for Housing in the Next Decade: 2011-2020". Scottish Government, 2011

[3] In Shelter's initial briefing on the budget we showed that overall housing and regeneration spending was falling by 32% in cash terms between 2010-11 and 2011-12. Adjusting for additional items like hostel support grant and support for Glasgow home-owners and adding in the £10 million for 2010-11 which was agreed as part of the 2011-12 budget discussions the decline is now 31% in cash terms.

construction. Scottish Government sources have confirmed that funding for *new* affordable housing will be available through the following programmes:

1. The Innovation and Investment Fund as set out in Homes for the 21st Century – £50m in 2011/12
2. TMDF for Edinburgh and Glasgow - £19m in 2011/12[4]
3. Additional funding for a Private Developers Shared Equity Scheme - £8m[5]

In addition, the Scottish Government provides a guarantee for council funding channelled through the National Housing Trust. The actual cost will depend on the number of cases, if any, where this guarantee is called on, but there is a notional allocation of £4m included in the overall budget figure given above.[6]

What Counts as "New Housing"?

To avoid double counting, the long established Scottish Government convention is to count "planned approvals" in any one year as the number of new houses resulting from the housing budget. Planned approvals occur when there is a clear allocation of finance for the houses in question and it may take some time, subsequently, for the houses to be designed and built. We have, therefore, compared the targets for 2011/12 set out above against the likely output resulting from each of the various programmes for new affordable housing. This is different from the actual number of houses completed in 2011/12 which will largely comprise housing for which funding was allocated in previous years.

The Innovation and Investment Fund[7]

The main source of funding for new approvals in 2011-12 is the Innovation and Investment Fund. This £50m fund is to be split 3 ways:

- £20m for councils
- £20m for housing associations also known as Registered Social Landlords (RSLs)
- £10m for an Innovation Fund open to all providers, including private developers.

In all 3 cases, the funds are intended to be competitive with bids received by end May and decisions announced in July/August. This will leave only just over half of the financial year for these decisions to be taken forward.

The Scottish Government has also published figures for grant subsidies available from the Fund which can be used to estimate the likely number of houses that will result from the investment**.**

[4] Figure supplied by Scottish Government – private communication.
[5] Figure provided by Scottish Government – private communication.
[6] Figure given in schedule 3.4 of the Health and Wellbeing Proposed Budget.
[7] Details of the split of funding and maximum subsidy levels are set out in Scottish Government paper "Outline Proposals for the Innovation and Investment Fund" February 2011.

For **councils**, the maximum subsidy has been set at £30,000 per house, which is the actual level of subsidy provided in the most recent, earlier round of funding for new council house building. It seems reasonable to assume that this will be the actual level of subsidy also provided in 2011/12 and that, as before, virtually all the funding will be used for new socially rented housing. The budget allocation of £20m in the Innovation and Investment Fund would, therefore, allow for approximately 650 new socially rented houses to be provided by councils.

For **RSLs,** a benchmark figure of £40,000 grant subsidy per new house has been specified. This is considerably below the average housing association grant provided for new socially rented housing previously – in 2009/10 this was just over £77,000 per house; in 2007/08 it was just over £85,000.[8] RSLs may seek to follow various strategies to reduce costs to allow new socially rented housing to be built including using reserves and cross subsidising through increasing rents on existing housing. RSLs may also increase their investment in new "shared equity" owner occupied homes where the equity is jointly owned by the RSL and the owner occupier as this type of housing requires considerably less subsidy (currently around £20,000 per house). They may also seek to invest in "mid market" rented housing with higher rents than those charged to socially rented tenants although, given their limited experience in this area and legal and regulatory constraints, there is unlikely to be a big shift in this direction in 2011/12. The £40,000 benchmark figure would provide 500 new houses from the overall budget allocation of £20m for RSLs although this may prove optimistic. If this is achieved, for illustrative purposes we have assumed that at least 20% of the total will need to be "shared equity" owner occupied houses to reduce overall average subsidy levels.

The **Innovation Fund** is expected to achieve lower levels of subsidy through competition between potential providers. There are no benchmark levels of subsidy (although it is expected to be below that provided for councils and RSLs in the normal way). Until the bidding process is concluded it is unclear as to which providers may be interested in building how many homes of the various types (social rented housing, subsidised owner occupation and subsidised private renting) for what level of subsidy. Optimistically, we have assumed that a £20,000 level of subsidy will be achieved which would give 500 additional new homes from the budget allocation of £10m. Very few of these are likely to be social rented homes – for illustrative purposes we have assumed 100 – and the bulk may well be subsidised owner occupied houses since neither private developers nor RSLs are likely to choose to invest in subsidised private rented housing in the short term.

Glasgow and Edinburgh – Transfer of Management of Development Funding (TMDF)

Funding for RSLs in these 2 cities is provided directly by the councils in question and included in the local government budget. Our understanding is that there is likely to be a maximum of £19m available for new affordable housing by RSLs in Glasgow and Edinburgh in 20011/12[9] and that the benchmark figure of £40,000 grant subsidy will also be applied. This would allow for just less than

[8] Scottish Parliamentary Question answer (S3W -34721) 16 June 2010.
[9] The remaining £79m of the overall TMDF in the Government's budget will be spent on housing already approved and, in most cases, under construction.

500 new affordable homes to be built and, again, for illustrative purposes, we have assumed that at least 20% will be subsidised owner occupied houses to help reduce average subsidy figures.

Funding for Private Developers

The Scottish Government has identified a separate budget to subsidise the provision of owner occupied housing by private developers (through a shared equity approach) although they can also apply for funding under the Innovation Fund described above. This was increased as a result of the political negotiations on the budget and now stands at £8m for 2011/12. As the average level of subsidy for shared equity schemes is approximately £20,000 this could fund some 400 new homes.

The National Housing Trust (NHT)

The Scottish Government has established the NHT initiative as a framework for providing new rented housing. The current model for the NHT is based on the procurement by specially created companies (known as special purpose vehicles - SPVs) of newly built houses from developers with between 65% and 70% funding coming from local councils and the remainder from the developer. The Scottish Government guarantees the council funding. Interest on the loan finance from councils and developers together with management costs is met from rental income. The houses are to be available for let by the SPVs for periods of 5 to 10 years on short assured tenancies with rents of, on average, 84% of market rents before they are made available for resale by the developers.

It is not clear how many houses can be provided using this model in this way, but the constraint is likely to be the willingness of councils and developers to participate in schemes rather than funding from the Scottish Government budget since the average cost of the guarantee has been estimated at only approximately £2500 per home[10] and may be less if the guarantee is not required. The first phase, initiated before 2011/12, is expected, in due course, to deliver 800 new homes[11] although these are still in the process of procurement and a second phase using the existing approach will follow on from this.

Homes Fit for the 21st Century also refers to the possible development of variants of the NHT designed specifically for the housing association sector but as no details are given it is not clear what form these will take or when they might be launched. It seems unlikely that they will be in place in time to influence the 2011/2012 programme.

[10] Figure supplied by Scottish Government – private communication.
[11] Estimate supplied by Scottish Government – private communication.

What Does it All Add Up To?

The numbers

The table below summarises Shelter Scotland's estimates of the likely number of new affordable houses resulting from the 2011/12 budget. It has to be emphasised that these estimates are deliberately based on optimistic assumptions and the actual output could be substantially less if providers, particularly RSLs, are not willing to commit to new building at the levels of grant subsidy on offer.

The table shows that the shortfall between what appears to have been planned and what has been promised is 3,450 which we can round up to 3,500. Alternatively, one might describe this as the target to be delivered by the National Housing Trust.

Potential approvals by supplier and programme				
Provider	**Social Rented Housing**	**Subsidised Owner Occupied Housing (Shared Equity)**	**Subsidised Private Rented Housing (Intermediate/mid market renting)**	**TOTAL**
Councils	700			700
Registered Social Landlords	850	400		1250
Private Developers		600		600
National Housing Trust (Special purpose vehicles)			? (see final row)	
TOTAL	1550	1000	? (see final row)	2550
TARGET	-	-	-	6,000
SHORTFALL	-	-	-	3,450

Notes
1. The estimated 100 social rented houses provided through the Innovation Fund have been split equally between councils and RSLs.
2. The estimated 400 subsidised owner occupied houses resulting from the Innovation Fund have also been split equally between RSLs and Private Developers. If councils were to bid successfully for funding for tackling empty homes in the private sector, then part of this 400 might also be allocated to them.

The Wider Implications

It is clear from the figures above that the housing investment programme for 2011/12 represents a radical departure from previous years. To date, the investment programme has been largely channelled into new socially rented homes with a smaller, though increasing, amount for subsidising new owner occupied housing through shared ownership and shared equity schemes. The emphasis on intermediate rented housing is entirely new.

Socially Rented Housing

The estimated new socially rented housing programme consists of, at best, 1550 planned approvals of which we estimate that 850 might be provided by housing associations and 700 by councils. Estimated new approvals by housing associations in 2011/12 is less than 20% of the annual average of 4400 approvals for housing associations over the 6 years from 2005/06 to 2010/11. Estimated new council approvals in 2011/12 is 700 houses which compares with almost 3300 approvals for new council house building in the past 2 years since this programme was initiated i.e. under half of the annual average for these 2 years. It also contrasts with the specific SNP pledge to build 5,000 council homes in the 2011-16 Parliament[12]. Overall, there is a very dramatic fall in approvals for new building of socially rented housing.

In addition, our estimated level of new building is only likely to be achievable if housing associations are able to finance new house building with almost 50% less subsidy per house than in 2009/10.

Scottish Government data, published in the evidence section of the Consultation Paper “Fresh Thinking; New Ideas”, demonstrates that socially rented sector lets largely benefit those on the lowest incomes with over 60% of social tenancies let to households in the lowest tenth of the income distribution.[13] The substantial contraction in the size of the building programme for socially rented houses will, therefore, inevitably impact most strongly on this section of Scottish society.

Subsidised Owner Occupied Housing

Our estimate is that some 1,000 new owner occupied houses will be subsidised through the investment programme largely through the shared equity scheme which now can include houses built by both housing associations and private developers. In contrast to the position on socially rented housing, this would represent a slight increase in comparison with the recent past – the average for subsidised new, owner occupied house approvals over the 6 years from 2005/06 to 2010/11 was approximately 820 per annum.

[12] See http://www.snp.org/node/17689

[13] Figures extracted from chart published on page 17 of “Housing: Fresh Thinking New Ideas” Scottish Government, May 2010

Scottish Government data suggests that the beneficiaries of these subsidies are likely to have significantly higher household incomes with 60% of shared equity purchasers falling in the third to fourth deciles of the income distribution and most of the remainder in the fifth and sixth decile[14]. Nevertheless, this part of the overall investment programme should help some potential first time buyers who, in current market conditions, are finding it very difficult to buy their own house. Inevitably, the programme will only help a small proportion of potential first time buyers.

Intermediate Rented Housing

Subsidised "mid market" rented housing was built in relatively small numbers with grants from Scottish Homes before 1997 but this programme was abandoned on the grounds that socially rented housing should take take priority for any available public funding.

The current approach does not rely on any significant public subsidy but, as a direct consequence, the rents are likely to be considerably higher than socially rented housing and only slightly less than market rents generally. Our estimates of likely rents are for 3 illustrative council areas (Edinburgh, Glasgow and Highland) are shown in column 4 of the table below. They range from 60% to over 90% higher than the average social housing rents shown in column 2.

(1) Local Authority Area	(2) Social Rented Housing Average rents 2009/10	(3) Private Rented Housing Local Housing Allowance (LHA) Rates for 2 Bedroom House for relevant Broad Rental Market Area September 2010	(4) 84% of LHA Rate in (3)
	£	£	£
Edinburgh	64.35	148.85	125
Glasgow	59.90	126.92	106.5
Highland	60.13	115.38	97

Notes:

1. Figures in Column 2 and 3 are taken from statistics published on the Scottish Government website.
2. Col 2 shows the average rents for all social rented housing in the 3 local authority areas
3. Col 3 shows the median rent in the privately rented sector as estimated by the Rent Registration Service for the Broad Rental Market Area which includes the local authority in question

In short, although these houses are included in the "affordable" housing programme it seems that they will only be affordable by tenants with substantially higher incomes than found in the socially rented sector.

The current model for this initiative also envisages housing being supplied by private developers who will be able to resell on the normal housing market in 5 to 10 years so that any resulting increase in the rented stock may simply disappear in a few years time. It seems important,

[14] As above

therefore, that early progress is made with the alternative proposed model which would see intermediate housing built, rented and managed by housing associations as a long term proposition.

Shelter Scotland sees a great deal of merit in the National Housing Trust as a means of supplementing the private rented sector and introducing a new type of provider. But there is no point in pretending that it substitutes for socially rented homes.

Conclusions

The commitment to provide resources for 6,000 new affordable houses in 2011/12 masks a considerable shift in the nature of the affordable housing programme and, as a result, a very significant change in the households that are likely to benefit. Although the final shape of the programme will not be clear until later in the year, our estimates based on information made available by the Scottish Government suggests that, in comparison, with recent years there will be a very sharp drop in new socially rented housing while new subsidised owner occupier housing is likely to increase. And if the 6,000 target is to be achieved, then over half of the programme is likely to be so called “intermediate rented houses” which are, in effect, privately rented houses with somewhat lower rents which are, nevertheless, substantially higher than rents for the socially rented sector.

Overall, investment in new socially rented housing through the affordable housing programme will fall from over 80% of total output in the previous 6 years to 25% in 2011/12.

Shelter Scotland does not believe that a shift of this magnitude is justified. If it were the case that the needs of households on the lowest incomes had been or were being met, then it may be right to turn greater attention to those on higher incomes who may also be struggling. But, with over 10,000 households in temporary accommodation, for example, this new departure scarcely seems merited.

Subsidised owner occupied housing and intermediate rented housing will be of value. But they will not provide housing for households on the lowest incomes and most in need. In Homes Fit for the 21st Century, the Scottish Government has committed to 18,000 affordable homes over the 3 years from 2011/12 to 2013/14. There is an urgent need to reconsider the balance of the programme during the second and third years and to give greater priority to socially rented housing.

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