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Better value from Housing Association Grant Changes to grant in 2008/9

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The Chartered Institute of Housing

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 and growing membership of over 20,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for - and the credible voice of - anyone involved or interested in housing.

CIH Scotland has more than 2,000 members working in local authorities, housing associations, housing co-operatives, the Scottish Government and government agencies, voluntary organisations, the private sector and educational institutions. The CIH aims to ensure members are equipped to do their job by working to improve practice and delivery. We also represent the interests of our members in the development of strategic and national housing policy.

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General comments

The Chartered Institute of Housing Scotland (CIH) welcomes this opportunity to comment on the proposals from the Scottish Government aimed at getting better value for Housing Association Grant (HAG) for 2008/09.

The consultation is part of the Scottish Government's priority to ensure that social housing is being delivered at the best value for the levels of subsidy from the Scottish Government. This is a theme that has been referred to in a number of Ministerial statements and that runs through the social housing sections of *Firm Foundations* the Scottish Government's discussion paper on the future of housing.

The CIH supports the need to look at delivering more housing for less and recognises that subsidy costs have been rising and in the response to *Firm Foundations* added that it:

*"is therefore supportive of looking at measures that can help to reduce these costs in order to deliver more housing to meet the needs of the communities that local authorities and RSLs work with. The CIH acknowledges that public subsidy per unit, via HAG, has risen by 35% over the last five years and shares the Scottish Government's concern over this. However, the reasons for this rise are not entirely clear, and cannot realistically be placed solely at the door of inefficiencies in development."*¹

The CIH therefore contends that the reasons for this rise are not entirely clear and in the response to *Firm Foundations* adds that:

"A better understanding of the reasons behind these subsidy increases is also imperative to understanding how the Scottish Government and the housing sector can move forward. It would therefore be to be beneficial to everyone for the Scottish Government to commission and publish some detailed work looking at what has been driving up subsidy levels to help inform future policy decisions. In our discussions with the sector, it is clear that a number of factors may have driven up subsidy levels:

- *The large increases in land costs over recent years. 'Land designated for residential building of 2 hectares has risen from £0.54 million (2002-3 prices) per hectare (ha) in 1995 to £1.37 million/ha by 2004',*²
- *Higher building standards that new housing must meet alongside the detail of the sector to produce higher quality housing,*
- *Increased construction and labour costs,*
- *The delivery of more specialist or adapted housing to meet the needs of people with disabilities and older people, which is generally more expensive to provide,*
- *Building more housing with improved energy efficiency and environmental suitability,*
- *Generally higher space standards in new social rented housing than private housing for sale,*
- *Regeneration initiatives and the development of brownfield sites."*

¹ CIH Scotland, (2008) *Consultation Response - Firm Foundations: The Future of Housing in Scotland*, CIH Scotland. Available at www.cihscotland.org

² Scottish Government, (2007), *Housing Market Review*, Scottish Government

Given the tight Scottish Budget settlement the CIH acknowledges that the Scottish Government needs to ensure that new affordable housing is procured and built at the most efficient cost. However the CIH is clear that this should not lead to compromises on:

- Quality,
- Space standards,
- Environmental issues,
- Innovative design,
- Meeting the needs of particular groups for adapted housing.

In the response to *Firm Foundations* the CIH also pointed out that in the drive for cost savings:

“This would need to be balanced against the ‘social cost savings’ which good quality, affordable, safe and secure housing can deliver in terms of health improvements, educational and employment initiatives and reduced crime.”

The CIH is therefore concerned that moves to restrict subsidy levels do not impact on the ability of RSLs to deliver new, good quality housing in the future, particularly at a time when a significant uplift in the number of affordable rented homes being built is required to meet future housing needs. This is important for the longer term plans relating to the additional proposed reforms to the HAG subsidies regime and the competitive process, as much as it is to the current proposals for HAG subsidy levels for 2008/09.

CIH response to the review of allowances and assumptions

Rents

The proposal is to revise the assumption on rent rises. The consultation says that the Scottish Government has underestimated the level of rent income, as a result of rent rises, and therefore the amount of private borrowing that can be supported for new build.

Whilst rent levels may have increased over recent years the CIH suggests that much of this additional income is being used to support the delivery of the Scottish Housing Quality Standard (SHQS). The *Scottish Housing Quality Standard Progress Report (2007)*³ recognised that the SHQS may have an impact on rent levels and said *“as part of our ongoing analysis and monitoring of the sector we will investigate further the impact of the SHQS on rents”*.

It also notes that rental income was covering 48% of the costs of meeting the SHQS. It found that in order to meet the SHQS RSLs *“intend to use surplus rents as their main source of funding for their investment requirements. This is closely followed by the level of anticipated borrowings.”*

The 2007 report found that the average RSL investment to meet the SHQS would be around £1,500 per dwelling (discounting GHA⁴). The Scottish Government’s *Scottish Housing Quality Standard Progress Report (2008)*⁵ found that just over 50% of the entire RSL sector stock now meets the SHQS. This amounts to almost 126,000 RSL dwellings. This means that RSLs still need to invest somewhere in the region of **£1.89 billion** to meet the SHQS. Given that rental income accounts for a large proportion this investment as does borrowing (89% between them) there must be a concern that revising the HAG assumptions

³ Communities Scotland, (2007), *Scottish Housing Quality Standard Progress Report*, Communities Scotland

⁴ Including GHA the average is approximately £5,900

⁵ Communities Scotland, (2008), *Scottish Housing Quality Standard Progress Report*, Scottish Government

for rent will put pressure on the delivery of the SHQS or make it less attractive for RSLs to enter into new build programmes.

Assumptions that rent levels can support greater private borrowing to offset HAG may well have detrimental effects on the level of borrowing that can be sustained for the SHQS putting pressure on its delivery. The potential for rent rises to part finance new development, offsetting lower HAG rates, may direct rent away from the SHQS delivery. Alternatively the need to borrow and use rents to support the SHQS delivery or new housing developments may reduce the scope for one or the other. None of these positions would be desirable.

The CIH would suggest that more work is required to look at what the current rent levels, and proposed future rent rises, are being used to service and what if any spare capacity there is to service further borrowing for new affordable rented house building.

The CIH would also caution against an over reliance on rent rises to support additional borrowing by RSLs, for whatever purpose. It is important from the point of delivering a wealthier and fairer society, through addressing social inclusion, that higher rents do not lead to a greater number of households being caught in the benefits trap and held in poverty and worklessness. A study by the Joseph Rowntree Foundation⁶ found that not all changes in work incentives arise through reforms to taxes and benefits, saying that rent levels were also important.

Voids

The voids assumption is used by the Scottish Government to determine the additional rental income that can be used to support HAG. In looking to at how the identified additional rental income from lower voids can be used to service borrowing the CIH believes the same cautions apply as above in stretching rental incomes to meet both the SHQS and the servicing of additional private finance for new developments.

Private finance

Given the present uncertainties in the finance market the CIH supports the Scottish Government's proposals not to make any changes to the cost of borrowing assumptions. However, there is some anecdotal evidence that lenders may view the proposed HAG changes (and the *Firm Foundations* direction of travel to reduce HAG subsidy rates) as not making lending to RSLs a less secure investment. If RSLs are seen as a less secure investment option, rates of interest on borrowing may rise to reflect this increased risk. The CIH suggests that it would be judicious for the Scottish Government to monitor the impacts of these policies on the cost of borrowing for RSLs.

Inflation

The CIH does not have a specific comment on the inflation assumptions. However, on a wider note about inflation it should be noted that inflation in the construction industry is higher than general inflation. Market forecasts by Davis Langdon⁷ show that the building cost index is running higher than the retail price index and is predicted to increase further above it over the next two years. A capacity study for the UK Government also found that "*construction industry inflation has been higher than inflation as measured by the Retail Price Index (RPI) for some time*"⁸. These higher inflation levels will put pressures on RSLs ability to procure new housing and on the subsidy levels from the Scottish Government. It would be beneficial for the Scottish Government to reflect on these alternative inflationary

⁶ Adam, S. Brewer, M. and Shephard A (2006) The poverty trade-off: work incentives and income redistribution in Britain, JRF

⁷ www.davislangdon.com

⁸ Deloitte, (2006), 2005-2015 Construction Demand / Capacity Study Full Report, Office of Government Commerce

measures when looking at what the HAG subsidy levels and RSL borrowing can deliver. In addition the CIH in its response to *Firm Foundations* noted that capacity issues in the construction may increasingly become a factor:

“This is a capacity in terms of both skilled workers, labourers and the supply of construction materials. Levering up housing construction and meeting the Scottish Housing Quality Standard will add pressure to the existing capacity. In addition to this, forthcoming major projects including the London Olympic Games, the Glasgow Commonwealth Games and the new Forth Road Bridge will all add additional stresses to capacity. The CIH is concerned there may be insufficient capacity in the industry and would like to see the Scottish Government undertake an urgent review of capacity in the construction industry similar to the Office of Government Commerce Study 2005 – 2015 Construction Demand / Capacity Study, carried out in 2006 for England. This could ensure that the construction industry will be able to meet future challenges and capacity issues without further driving up costs in the sector.”

Capacity constraints and added demands in Scotland could further fuel upward pressure on construction industry inflation and the building costs index adding challenges to the delivery of more affordable rented housing.

Management, maintenance and major repairs allowances

In reassessing the allowances used for awarding HAG the Scottish Government suggest that new stock should be less expensive to manage. The CIH would draw attention to the profile of new tenants and anticipated future tenants being accommodated. Work for the CIH by Newhaven Research⁹ suggests that in future single adult household of non-pensionable age will be the biggest single group. Within this group landlords said that they believe they will be housing more young and vulnerable people. The report concluded that this will lead to real service cost increases with particular pressures on housing management. It said:

“It is less apparent that they [social landlords] or policy makers have fully grasped the service implications arising from younger single people being the fastest growing social rented sector client group. This group is likely to need support in establishing and maintaining tenancies for the period of time they see the sector as meeting their requirements.”

When considering allowances for management costs the Scottish Government would do well to look at these costs set against the need for more intensive housing management services to support an increasingly vulnerable tenant base.

Conclusion

The CIH supports the commitment to increase the supply of new social housing and to ensure that this is done as efficiently as possible. It is right that the HAG funding allowances are reviewed to ensure that this is the case. The CIH is concerned to see that the right balance is achieved to ensure better value for money whilst at the same time not tipping the balance to make the delivery of more housing a disincentive to RSLs and thus restricting the delivery of much need affordable housing for communities across Scotland. The CIH response reflects the need to ensure this balance and to also take account of wider issues that may impact on costs and supply.

⁹ Newhaven Research, (2006), *The Future for Social Renting in Scotland*, CIH Scotland