

Investing in Affordable Housing – the Way Forward

1. The Scottish Government is grateful to all who responded to its December 2008 consultation on Investing in Affordable Housing. We have considered the responses and discussed the implications with COSLA and the SFHA. This paper sets out a number of areas of work that have been jointly agreed as the basis for moving housing investment forward.

Context: The Credit Crunch and the Recession

2. We are committed to increasing the supply of affordable housing to meet increased demand resulting from demographic and social change and to meet the homelessness target of 2012.
3. However, the credit crunch and its effects on public and private finances constitute a very significant challenge for all those involved in the provision of Affordable Housing in Scotland. The common expectation is that the recession will lead to an increase in the demand for affordable housing. At the same time, there will be severe constraints on the amount of public money which the Government will have at its disposal. The availability and cost of private finance, and lenders' expectations, are also changing. Some RSLs and developers may no longer find it as easy to access private finance in the same way as before.
4. We will do all that we can to maintain and increase the supply of housing, especially affordable housing, in these difficult times. We will make sure our resources are deployed to best effect and we are considering alternative sources of private finance and approaches to funding affordable housing. We will maintain a dialogue with Local Authorities, RSLs and those involved in the house building industry to identify where innovative approaches can help address the difficulties we face.
5. We welcome the commitment, innovation and skill shown by Local Authorities, RSLs and the industry to work with us to address the housing needs of our communities. While innovative funding approaches will help us achieve our ambitious commitments, they alone will not be sufficient. The inescapable truth is that we need to produce houses and housing services more efficiently and effectively. This is a challenge to which all of us need to respond if we are to put the interests of tenants, current and prospective, at the heart of what we do.

Context: The role of the RSL sector

6. We are currently consulting on draft legislation that would reform the regulation of the social housing sector. Subject to the consultation and the views of Parliament, the proposed Housing Bill would introduce the Scottish Social Housing Charter, which would define the outcomes and value that social landlords should be delivering for their tenants. The Bill would also establish the Scottish Housing Regulator as a statutory body, with the statutory objective of safeguarding and promoting the interests of current and prospective tenants, and with responsibility for monitoring and enforcing compliance with the charter, and for setting performance improvement targets. It would also have a range of powers in relation to safeguarding the financial health and good governance of RSLs.

7. We intend that these reforms should provide a clearer and sharper definition of the core responsibilities of social landlords, including: managing tenancies and providing an excellent standard of service to tenants; maintaining their stock and enhancing its quality; and managing their assets efficiently, in the interests of current and future tenants and the taxpayer. We also recognise that many RSLs have skills and experience beyond these areas of core landlord competence and are well placed to continue to contribute in wider ways to the cohesion and strength of vulnerable communities.
8. Our view is that developing new stock at its own hand cannot and should not be a part of the role of every Housing Association or of every Local Authority. Given the pressures we face on resources and the level of housing need, we have to make sure that every new home we invest in offers the best value possible. The processes used for the delivery and procurement of new homes need to be as efficient as possible and to reflect best practice. Developing new stock is a challenging activity calling for high standards, distinctive skills and experience, and we need individual organisations within the sector to take the lead in these aspects.

A more strategic approach to prioritising investment: the importance of Local Authority strategic planning frameworks

9. There is widespread agreement with our proposal that councils' Local Housing Strategies, and specifically their Strategic Housing Investment Plans, are the key determinants of housing development priorities in each Local Authority area, and should guide the application of Government (and other) funding. We will continue to work with COSLA and councils to refine the processes around the production and use of Local Housing Strategies and related SHIPs, and to improve their quality and consistency. We will also continue to work with COSLA, councils and RSLs to make sure that the investment priorities set out in SHIPs are transparently reflected in our decisions to award subsidy for affordable housing, and in the equivalent decisions taken by Glasgow and Edinburgh councils on our behalf.
10. The responses to the consultation indicated that developing a framework of multi-Authority regions, and associated regional prospectuses, would not be helpful, and that collaboration between Authorities and RSLs would continue to progress without such a structure. At the heart of the new approach to planning for housing already agreed between central and local government is collaboration between Local Authorities on Housing Need & Demand Assessments for housing market areas, and Local Authorities may if they wish produce joint Local Housing Strategies. We will continue to promote and support partnership working across (as well as within) Local Authority boundaries, and to ensure that there is a clearer statement of the expectations of central and local government. However, we agree that the imposed system of regions and regional prospectuses proposed in the consultation would have had drawbacks, and should not be taken forward.

Setting standards for those who develop new stock

11. The majority of responses to the consultation supported our proposal to introduce a system of “pre-qualification”, to determine those RSLs eligible to apply for subsidy under the proposed new competitive arrangements. While we do not propose to implement the competition proposals set out in the consultation (see below), we intend to develop a standard for “approved developers”. Achievement of this standard will be a requirement for any RSL, council or other body, intending to develop at its own hand with Government subsidy.
12. In general, we will not fund regulated bodies where the Regulator has significant concerns about its governance, service quality, stock investment or financial viability. We will seek to agree with COSLA, the SFHA and the Scottish Housing Regulator both a standard and an assessment method for “approved developers”, based on the proposals set out in Annex C of the consultation.

Collaborative structures

13. The responses to the consultation were generally supportive of the Government’s call for more collaborative working between RSLs and others, but rejected the consultation’s argument for a preferred form of consortium based around a single RSL as consortium head. It was pointed out that other forms of collaborative arrangement have been developed both within Scotland and elsewhere in the UK.
14. Having considered these responses, and the progress made by a number of associations and Local Authorities working together collaboratively in different parts of the country, we agree that it would be premature to specify one preferred form of consortium. Instead, we wish to encourage the development by the sector of a range of structures that are designed to deliver good quality homes efficiently and effectively. We will continue to work with those organisations that are already moving in this direction and will continue to support further such initiatives. All consortia and collaborative partnerships will be judged by their results, and the development of new approaches should be informed by best practice and lessons learned by existing groupings. What is clear, however, is that consortia need to be focussed on increasing value – delivering savings and quality improvements – rather than simply be marriages of convenience. As a first step, we propose to invite representatives of the SFHA and the housing association sector, and of ALACHO, to join a working group to consider the strengths, weaknesses and achievements of existing groups and partnerships. The Government is open minded on whether, in due course, it will wish to issue guidance about which form of collaborative structures appear most effective.
15. The consultation responses were divided on the scope for involvement of Local Authorities and other non-RSL bodies in the consortia. However, in the Government’s view, the difficulties caused by the credit crunch and recession make it essential that we consider the role that all parties can play in helping to enhance the provision of affordable housing in Scotland, and in particular we are keen to promote active collaboration between councils and RSLs. We therefore intend to explore with COSLA, the SFHA and Homes for Scotland the scope for including Authorities and other bodies in the structures through which new affordable housing is delivered.

Long-term funding

16. Many of the responses welcomed the consultation proposal to make long-term (5-year) funding commitments to RSLs who meet certain high standards. We are already in discussion with COSLA to agree a methodology for 3-year indicative allocations to council areas, which we will seek to implement quickly. We also believe there should be scope to award 3-year programme agreements to selected developers within the RSL sector, and the consultation responses have confirmed our view that this would increase the scope for these developers to pursue greater efficiency through longer term agreements with the industry. Accordingly, we will work with COSLA and SFHA to develop methods for 3-year allocations to developers, to be implemented following the conclusion of the next spending review. In return, these RSLs should be able to demonstrate how they will deliver improved value for money over the period of the 3-year funding package.

Efficiency, effectiveness and best practice

17. Particularly in the current economic climate, all parts of the public and voluntary sectors should look to the efficiency and effectiveness of their activities, just as the private sector is impelled to during challenging times. While the RSL sector has an excellent track record of quality and innovation, it cannot be exempted from the search for greater effectiveness. Social landlords will need to improve their housing and asset management; identify ways to restrain costs; and develop improved methods of procurement, both of new stock and of maintenance products and services. This may require changes to the way the construction sector engages with the social landlord in order to achieve efficiencies in the construction supply chain.
18. To facilitate this, we are considering with the SFHA, COSLA and the Regulator how to improve the identification and sharing of best practice within the social housing sector.
19. In addition, we will continue to work with councils and RSLs to seek ways to achieve best value in housing procurement, so that new homes can be delivered for the lowest realistic level of Government subsidy without compromising on quality. The Government will continue to identify new solutions – for example through our efforts to open up new possibilities for RSLs by identifying new funding sources or by deploying the Affordable Housing Investment Programme resources in different ways. But the principal responsibility for seeking greater effectiveness and efficiency rests with those who develop housing themselves – chiefly the RSLs and their construction partners.
20. We accept that the introduction of formalised competition structures at this time of rapid change would not necessarily help achieve this goal. However, as always, we will continue to use the existing HAG subsidy system to improve value for money and encourage RSLs to improve procurement, asset management, and indeed control of general operating costs, in tandem with the principles of regulation and the operations of the Scottish Housing Regulator.