

FINANCE COMMITTEE CALL FOR EVIDENCE

DRAFT BUDGET FOR 2013-14

SUBMISSION FROM SCOTTISH FEDERATION OF HOUSING ASSOCIATIONS

Introduction

1. As the national representative body for housing associations and co-operatives in Scotland, the Scottish Federation of Housing Associations (SFHA) welcomes the opportunity to respond to the Finance Committee's call for evidence to inform its scrutiny of the Draft Scottish Budget 2013-14.
2. We note that the Committee has agreed to focus its scrutiny of the draft 2013-14 budget on whether spending decisions align with the Scottish Government's overarching Purpose of increasing sustainable economic growth. We would urge the Committee to acknowledge that housing (and its related services) is a powerful economic tool and that it must have a much higher priority in public investment decisions.
3. We are taking this opportunity to restate our case for significant investment in housing and housing related services. Good quality, warm and genuinely affordable housing is central to a successful Scotland; Scotland's housing associations and co-operatives have an excellent track record in providing this. The range of additional services our sector provides, alongside housing provision, makes a significant contribution to the prevention of costly public expenditure in other areas of the Scottish Budget.
4. This submission outlines how government policy and adequate public investment can ensure the continued and improved delivery of the Scottish Government's objectives in respect of sustainable economic growth and an effective preventative spending approach.
5. Our members provide vital housing, housing support and community regeneration services throughout Scotland, from the most densely urban to the most remote rural communities. They often operate in the poorest communities in our country. Housing associations and housing co-operatives in Scotland own, manage and maintain 46% of the country's affordable rented housing stock and 11% of the total stock. This represents 274,996 homes across Scotland.
6. Our evidence on the Scottish Budget is in three parts: investing in new affordable housing; investing in the energy efficiency of existing housing; power of preventative spending.

Summary of Key Points

7. In this submission, we have outlined strong evidence that housing has a real economic benefit, creates jobs, as well as multiple social benefits that prevent costlier crisis interventions.

8. The activities of housing associations and co-operatives increase community wellbeing, help local economies, improve public health, provide a sound basis for educational achievement and reduce poverty and social injustice.

9. All of this assists the Scottish Government in meeting important strategic policy targets such as the 2012 Homelessness target, the 2016 Fuel Poverty target and the 2020 energy efficiency and carbon reduction targets.

10. It also provides a strong foundation for the achievement of the Scottish Government's economic sustainability objective.

11. Housing associations and co-operatives have the potential to play a major role in economic activity, in supporting training and employment; in improving energy efficiency and getting households out of fuel poverty; in reducing costs to government through preventative spending and in helping an ageing population to remain at home and live more comfortable and fulfilling lives.

12. Our sector has been challenged by the Scottish Government to be innovative in these times of financial constraint. Housing associations and co-operatives have a strong track record of achievement using innovative and imaginative approaches. SFHA considers that one innovation that has yet to be captured in the Scottish Budget is moving from a "more for less" agenda to a "spend to save" approach.

13. We urge the Finance Committee to recognise the full social and economic value that is derived by funding preventative services which keep Scotland's most vulnerable people safe from harm. Funding preventative services adequately also ensures that core service budgets such as health, social care and justice are not put under unnecessary additional pressure, especially at a time of fiscal challenge.

14. Affordable housing needs to be seen in its own right in terms of preventative spending. Investing now in affordable housing, housing support, community regeneration and energy efficiency can save money in other budgets such as health, social care, education, justice and climate change. This is vital not only for Scotland's economic recovery, but also for tackling the entrenched issues of poverty, ill health and deprivation.

15. We acknowledge the Scottish Government's efforts in highlighting the role of capital investment in boosting the economy. We urge the Committee to emphasise the benefits of prioritising increased capital investment in housing. Investing in new build genuinely affordable housing is one of the most effective ways to secure jobs and training and to stimulate the economy. We urge the Scottish Government to commit to a significantly increased and viable programme of housing investment.

16. The UK Government's Welfare Reform Act 2012 includes radical reform of Housing Benefit. The new framework threatens the security of the income streams of housing associations and co-operatives, which risks undermining the confidence of lenders in investing in the sector. It will also threaten the ability of our sector to safeguard the future of its existing stock. The reforms will impact most on the poorest people in society, a large proportion of who live in social housing. We have submitted separate written and oral evidence to the Committee on this subject earlier this year.

Investing in New Affordable Housing

17. Affordable housing was one of the biggest losers in the 2012 -15 Draft Scottish Budget. The Budget for 2012-13 included a 30% cut in the overall amount of funding available for new investment in affordable housing, which was one of the biggest cuts anywhere across government. At the same time, average subsidy benchmark levels have continued to be set at a historic low.

18. Whilst we have welcomed both the publication of a three year budget and a boost of £20m to affordable housing investment earlier this year, our sector now faces a significant challenge in developing much needed genuinely affordable homes for rent.

19. Future subsidy benchmarks must reflect the costs of providing genuinely affordable social rented housing and the long term value that this provides. Otherwise, we will see a long term shift in housing investment with ever higher levels of mid-market rent and shared equity housing. Whilst there is a market for these in some locations, their provision must not be at the expense of much needed low cost rented housing for those in greatest need.

20. Adequate government subsidy is essential to the continued supply of genuinely affordable social rented homes. This is because housing is expensive to build, to live in and to manage and maintain. Adequate government subsidy enables rents to be set at levels that are genuinely affordable to low income households. It is not the providers who need government subsidy, but the tenants living in social rented homes. There are two forms government subsidy can take and both are currently in use: capital grant (a capital subsidy to the housing developer) and Housing Benefit (a revenue subsidy to the tenant). The capital subsidy is one off and under the control of the Scottish Parliament, whilst the revenue subsidy is open-ended and controlled by the Westminster Parliament. The continued provision of social rented housing requires a balance of both of these forms of subsidy. Yet both are currently under serious threat.

21. The Scottish Government is aiming to build 6,000 new affordable homes a year, built by both housing associations and councils. Even if this target is achieved, it will take 60 years to clear the current housing association waiting list of 335, 000 households.¹

¹ Statistics supplied to the SFHA by the Scottish Housing Regulator (5 July 2011) based on data in the 2009-10 Annual Performance and Statistical Return.

22. We noted that the Scottish Government sent a list of priority capital projects totalling £302m to the UK Government earlier this year. This month, we have lobbied the Cabinet Secretary for Infrastructure and Investment about the relatively small number priority investments from the Strategic Housing Investment Plans (£15m) in the list supplied to the UK Government. Even at the current low subsidy levels, £15m would only produce 375 homes.

23. SFHA has surveyed its members and we have identified a list of specific “shovel ready” projects which could be on site within 12 months with the right funds in place. None of these have any commitment to being funded from the existing Affordable Housing Supply Programme. We estimate the combined value of these projects to be just over £200m, with an estimated subsidy of some £63m. If the Scottish Government were able to prioritise further investment in housing, this funding could produce 1,674 homes across Scotland. Just over half of these would be for social rent.

24. There are many more projects in the pipe line awaiting funding, but a number of housing associations and co-operatives are saying that subsidy at the current per unit level is unsustainable. For a growing number of them, developing at this subsidy level would put at risk not only their organisation, but also the homes they already manage and maintain.

25. If the Scottish Government were to invest in the specific projects on the SFHA’s list, these homes could be on site in 12 months and lived in within a further twelve months. This would demonstrate a significant commitment to the provision of affordable housing.

Creating Jobs and Stimulating the Economy

26. House building is a labour intensive industry. It is one of the most effective sectors One of the most effective sectors for stimulation of employment.² Investing in new affordable housing not only creates jobs and apprenticeships, it also creates long-term assets for the country in the process.

27. SFHA has welcomed Sir Richard Lambert, former Director- General of the CBI, calling recently upon Chancellor George Osborne to invest in a “bold scheme” on housing to benefit both the construction industry and those in housing need.³ This followed news that the Bank of England was set to further downgrade its growth forecasts, which indeed it has done subsequently.

² UK Contractors Group (May 2012), Construction in the UK Economy: The benefits of Investment. Available at http://www.ukcg.org.uk/fileadmin/documents/UKCG/LEK/LEK_May_2012_final.pdf (accessed 24th August 2012)

³ Comments from Sir Richard Lambert on Radio 4 Today programme on 8th August 2012

28. In its briefing to MSPs for the Stage 1 Debate on the Budget Bill in January 2012, The Scottish Building Federation said that:

“As a major investment priority with significant direct and indirect economic benefits, funding for affordable housing should be protected over the spending review period.”⁴

29. In research conducted for the Scottish Government, construction has been shown to have a larger positive impact on the Scottish economy than any other industry.⁵ Housing construction has higher “multipliers” than other industries for income, output and employment.⁶ The construction sector employs around 5% of all Scottish employees, or 127,000 people, with an estimated further 63,000 construction workers being self-employed. In an economy still struggling with the effects of the credit crunch and recession, these must be major considerations when allocating spending.

30. The number of “shovel ready” projects that our sector could bring into play if the right funding is in place underlines the potential of our sector to help to sustain the Scottish construction industry at an uncertain time for private house building.

31. Given the strong evidence of how significant this role could be, we would urge the Scottish Government to give a higher priority to investment in genuinely affordable housing.

Leverage of Private Finance

32. Housing associations and co-operatives lever in significant private finance to boost public investment in housing. As at 31 March 2011, the sector had outstanding borrowings of £2.62bn (compared to £2.36bn the previous year).⁷

33. However, there are some increasing funding challenges for the sector, both in terms of accessing new private finance and in repaying existing borrowings.

34. SFHA has been exploring members’ recent experiences with lending institutions. There appears to be a limited number of potential sources of funding, with most lenders unwilling to lend for more than five years compared to the thirty year terms commonly offered previously. Some lenders are unwilling to lend to anyone other than existing customers and are taking the opportunity to re-price existing loans as a condition of new borrowing. Re-pricing of an existing loan is also becoming common as a condition of consent to a specific action (consent to specific

⁴ Scottish Building Federation (Jan. 2012), Briefing to MSPs for Stage 1 Debate on Budget (Scotland) Bill 25th January 2012. Available at [http://www.scottish-building.co.uk/uploaded/MSPs%20BRIEFING%20PAPER%20-%20SCOTTISH%20BUDGET%20STAGE%201%20DEBATE%20-%20BUDGET%20\(SCOTLAND\)%20BILL%20-%2025th%20JANUARY%202012.pdf](http://www.scottish-building.co.uk/uploaded/MSPs%20BRIEFING%20PAPER%20-%20SCOTTISH%20BUDGET%20STAGE%201%20DEBATE%20-%20BUDGET%20(SCOTLAND)%20BILL%20-%2025th%20JANUARY%202012.pdf) (accessed 24th August 2012)

⁵ Monk, S., Tang, C. and Whitehead, C. (2010), *What does the literature tell us about the social and economic impact of housing?*, Report to the Scottish Government: Communities Analytical Services. Available at <http://www.scotland.gov.uk/Resource/Doc/313646/0099448.pdf> (accessed 24th August 2012)

⁶ Monk et al (2010), as above

⁷ Scottish Housing Regulator (March 2012), *Weathering the Storm? The Scottish Housing Regulator’s Analysis of the Finances of Registered Social Landlords 2011*, p.13. Available at <http://www.scottishhousingregulator.gov.uk/sites/default/files/publications/WTS%20Final.pdf> (accessed 24th August 2012)

actions being a requirement of most loan agreements). All of this is making it difficult for many in the sector to fund new supply and/or refinance to improve existing stock. SFHA will be seeking to discuss this in more detail with lenders, their representative bodies and with the Scottish Government.

35. A number of “alternative” funding models have entered the market recently and SFHA has commissioned a short study to identify what these new alternatives are, to comment on their terms, highlight key risks and to assess them in the light of the following criteria: rent affordability; deliverability; level of government support; scalability; accessibility; property tenure. The intention is to provide the SFHA’s members with a point of reference that they can use when considering their future private finance requirements. Whilst the alternative models may be appropriate in specific circumstances, SFHA remains to be convinced that they will be the solution for the delivery of significant numbers of much-needed new social housing supply across the country.

36. SFHA is mindful of the following statement by the Scottish Housing Regulator:

“A reduction in aggregate turnover, coupled with an increase in the proportion of that turnover used to service debt, emphasises the need for RSLs to adopt a prudent approach to cost control, business planning and business management”.⁸

37. The Scottish Government has been encouraging our sector to use its reserves to help fund new supply. These reserves have been built up over a long period of time and are earmarked primarily for the future maintenance of stock and for prudent risk cover. They can only be used once and there is limited scope for them to be used for other purposes.

38. In addition to the funding challenges created by the current economic climate, there is also the threat to the sector’s rental stream, upon which lenders rely, presented by welfare reform. We have previously given evidence to the Committee about the potential impact of welfare reform on our sector.⁹ The planned changes and restrictions to Housing Benefit generally will impact on demand for housing, levels of household indebtedness, and potentially increase homelessness. We have highlighted that the combined consequence of the direct and indirect impacts of the reforms will reduce household income in our sector by around £220m in total over the period from now until 2016-17.¹⁰ Many/most working age benefit claimants face reduced support under the new Universal Credit, which will be paid direct to the claimant. Currently, Housing Benefit claimants have the right to choose to have it paid direct to their landlord. When the new integrated Universal Credit begins its phase-in from October 2013, rent collection will become more costly, less efficient and more precarious.

⁸ Scottish Housing Regulator (March 2012), as above, p.15

⁹ SFHA (June 2012), *Evidence to the Finance Committee on the Impact of Welfare Reform*. Available at http://www.sfha.co.uk/component/option.com_docman/Itemid.82/gid.2244/task.doc_download/ (accessed 24th August 2012).

¹⁰ IS4 Consulting (August 2012), *The Impact of Welfare Reform on Housing Associations and Co-operatives in Scotland*. Available at http://www.sfha.co.uk/component/option.com_docman/Itemid.82/gid.65/task.cat_view/ (accessed 24th August 2012)

39. Lenders have been expressing their grave concerns about the impact of welfare reform on our sector from the time the integrated benefit was first proposed. In its recent evidence to the Social Security Advisory Committee, the Council of Mortgage Lenders said:

“We have been encouraged by Lord Freud’s publicly stated commitments that the changes heralded by the Welfare Reform Act should not be implemented in such a way as to undermine the financial viability of the [our] sector and lender/investor confidence in it.”

“Notwithstanding this commitment, we continue to be concerned that the combined effect of these changes, the detailed arrangements for which are contained in regulations, including the two sets subject to the current SSAC call for evidence, could be to destabilise landlords’ income streams with consequential impacts on lender and investor confidence in the sector as a whole, particularly the smaller to medium sized housing associations.”¹¹

Meeting Housing Need

40. Housing is also one of the most socially responsible areas in which government can invest public funds. When we published *Making Housing a National Priority* in 2011, we emphasised that the need for affordable housing is reaching crisis levels in Scotland.¹² This crisis remains in 2012 and will be exacerbated by the evolving impact of welfare reform. There are around 335,000 households on housing association and co-operative housing lists for affordable rented housing in Scotland. Since the Right to Buy was introduced there has been a net loss of 337,467 affordable rented homes in Scotland.¹³

Health and Educational Benefits

41. Investing in genuinely affordable rented housing provides the benefits of preventative spending for health and education. Investing in genuinely affordable rented housing helps reduce social inequality, which in itself has wider benefits on health and education.

42. There are clear relationships between poor housing conditions and poor health: improvements to housing environments (internal and external) can lead to improvements in physical health conditions, mental health and well-being. Evidence suggests that both overcrowding and homelessness impact in a particularly negative way on children’s educational performance, as well as on their physical and psychological health and life chances.

43. In 1999, the Scottish Office published a report that summarised the research evidence at that time of the links between poor housing and ill health. The report

¹¹ Council of Mortgage Lenders (July 2012), *CML Response to the Social Security advisory Committee Part 1: Universal Credit and related Regulations*. Available at <http://www.cml.org.uk/cml/policy/responses> (accessed 24th August 2012)

¹² SFHA (2011), *Making Housing a National Priority*. Available at <http://www.sfha.co.uk/sfha/latest-news/make-housing-a-national-priority-scottish-government-urged/menu-id-8.html> (accessed 24th August 2012)

¹³ Scottish Government (2011), *Housing Statistics for Scotland*, Available at <http://www.scotland.gov.uk/Publications/2011/08/30084023/1#chartten> (accessed 24th August 2012)

argued that, “the body of research conducted over the past 20 years, which shows that associations between housing and health do exist, supports the argument that good quality housing has a role to play in both physical and mental health”¹⁴

44. In 2008, Scotland's Housing and Regeneration Project (SHARP) considered the impact of local regeneration and relocation to new-build social housing on health and a range of other outcomes. The study found that very specific aspects of the built environment such as housing design and street layout can impact on mental well-being and quality of life by altering key psychosocial processes such as control, privacy and sociability.¹⁵

45. Investing in quality affordable rented housing that is well managed will provide wider social and economic benefits and fits the “spend to save” agenda.

Increasing the Energy Efficiency of Existing Housing – Cutting Fuel Poverty and Combating Climate Change

46. The Scottish Government has set three major energy efficiency targets, which are enshrined in legislation:

- Ending fuel poverty by 2016 (as far as practicably possible);
- Reducing energy consumption by 12% by 2020;
- Achieving a 42% reduction in carbon emissions by 2020.

47. These are ambitious targets and housing associations and co-operatives have a significant role to play in helping to meet them. The most recent Scottish House Condition Survey highlighted that the housing stock of housing associations and co-operatives is generally more energy efficient than other social rented, privately rented or privately owned stock.¹⁶ Consequently, we are well placed to lead on energy efficiency improvements and the generation of renewable heat and electricity, minimising fuel poverty whilst creating jobs and training opportunities.

48. Domestic housing is responsible for around 27% of the UK’s carbon emissions.¹⁷ Housing association homes are built to high energy efficiency standards, reducing household productions of CO₂. Improving existing homes has an even greater potential for energy savings. The Energy Savings Trust has calculated that improving all homes to at least a D standard would result in a 25% reduction of emissions from 1990 levels.¹⁸

¹⁴ Wilkinson, D (2011), *Poor Housing and Ill Health: A Summary of the Research Evidence*, Scottish Office Central Research Unit, p.2. Available at <http://www.scotland.gov.uk/Resource/Doc/156479/0042008.pdf> (accessed 24th August 2012)

¹⁵ Cited in Gibson, M, Thomson, H, Kearns, A, and Pettigrew, M, *Understanding the Psychological Impacts of Housing Type: Qualitative Evidence from a Housing and Regeneration Intervention*, Housing Studies, Vol. 26, Issue 04, (2011). Available at <http://www.tandfonline.com/doi/full/10.1080/02673037.2011.559724> (accessed 24th August 2012)

¹⁶ Scottish Government (2010), *Scottish House Condition Survey: Key Findings 2010*, figure 10. Available at <http://www.scotland.gov.uk/Resource/Doc/363471/0123368.pdf> (accessed 24th August 2012)

¹⁷ Energy Saving Trust (2010), *Reducing Emissions from Social Housing*, p1. Available at <http://www.energysavingtrust.org.uk/scotland/Professional-resources/Existing-Housing/Reducing-Emissions-from-Social-Housing> (accessed 24th August 2012)

¹⁸ Energy Saving Trust (2010), as above

49. Fuel poverty is a significant issue in Scotland. Twenty nine percent of social housing tenants in Scotland live in fuel poverty,¹⁹ and with rising fuel prices and a pattern of harsher winters, this looks set to increase.

50. The Scottish Government has two current consultations related to meeting its three energy efficiency targets. The consultation on a draft *Sustainable Housing Strategy* sets out the overall vision for the sustainability and energy efficiency of Scotland's homes. SFHA broadly supports the vision for warm, high quality, low carbon homes and a successful low carbon economy across Scotland. The consultation on the *Energy Efficiency Standard for Social Housing* outlines plans to set standards for energy efficiency in the social housing sector in order to help meet that vision.

51. Both the SFHA and a number of our members have been actively involved in the steering group for the proposed Energy Efficiency Standard for Social Housing (also known as SHQS 2). SFHA has also contributed to the discussions around developing the draft Sustainable Housing Strategy. Our sector is committed to playing a key role in improving energy efficiency and eradicating fuel poverty, but does not underestimate the significant costs involved in meeting the existing targets and the proposed additional obligations.

52. SFHA is a partner in the Existing Homes Alliance, who have calculated that achieving the fuel poverty target would require an additional investment of £170m per year, in addition to what is already invested by Scottish and UK governments. To meet climate change targets would require additional investment of £100m per year.²⁰ These figures equate to less than the cost of 2km (£173m) and 1 mile (£138m) respectively of the M74 extension, but the benefits would be felt all over Scotland and (in the case of environmental targets) the wider world.

53. Warm, dry homes promote better health, both mentally and physically. A study in the British Medical Journal demonstrated that a standard retrofit installation package resulted in participants taking fewer days off school and work due to ill-health, making fewer GP visits, and feeling healthier.²¹ So building new, energy efficient homes and refitting existing homes has an excellent fit with the Scottish Government's preventative spend agenda.

54. Housing associations and co-operatives are leading the way in addressing energy efficiency. Our members have a strong track record on asset management and have made excellent progress towards meeting the Scottish Housing Quality Standard, which includes energy efficiency measures and elements.

55. They have the potential to show others, e.g. in the privately owned and privately rented sectors, the way on schemes that retrofit energy efficiency measures and renewable energy in homes throughout Scotland.

¹⁹ Scottish Government (2010), *Scottish House Condition Survey: Key Findings 2010*, table 28. Available at <http://www.scotland.gov.uk/Resource/Doc/363471/0123368.pdf> (accessed 24th August 2012)

²¹ Howden-Chapman et al, (2006) *Effect of insulating existing houses on health inequality*, BMJ 14/12/06. Available at <http://www.bmj.com/content/334/7591/460> (accessed 24th August 2012)

56. The SFHA and its members are actively working to alleviate fuel poverty and address climate change. Our work includes:

- Development of a carbon portal project, to assist members to identify the most cost effective ways to improve the energy efficiency of their stock, and link them to funding opportunities to improve that stock;
- Involvement in the discussions around the two current Scottish Government consultations referred to above and to the Scottish Government's Expert Group on District Heating;
- Sharing best practice and promote information on funding opportunities and new technologies.

57. Housing associations and co-operatives face considerable challenges to increase energy efficiency and reduce fuel poverty. The Scottish Government's Energy Efficiency Action Plan consultation, which looked at how the targets set in the UK Government's Climate Change Act could be met, estimated that it would cost an average of £7,000 per house, around £16b in total, to bring homes up to the required standard by 2020.²² While, as highlighted above, the SFHA and its members are involved in a number of initiatives to improve energy efficiency and tap into funding, finding the funding solutions remains a significant challenge. There is potential to use funds such as the Feed in Tariff, the Renewable Heat Incentive, the JESSICA fund and the ERDF to improve energy efficiency and install renewables.

58. In our evidence to the Committee in 2011, we said that Scotland needs a comprehensive strategic framework to be put in place to enable a house by house, street by street, approach to improve energy efficiency in Scotland's housing and assist the Scottish Government to meet its targets on fuel poverty and climate change. We highlighted this statement in the Existing Homes Alliance's Declaration:

*"Government and industry action should focus on a "whole-house" area-based approach, which applies packages of low carbon improvements across an area over a short period of time. This approach brings greater economic savings and causes less disruption to householders since a number of interventions are installed at once. Improvements to water and other resource use efficiency should also be included. This should be undertaken in conjunction with a national, demand-led programme and be fully integrated with an adequately resourced fuel poverty programme. To make this happen, significantly more investment is required, from Government, utilities, and householders."*²³

59. SFHA and its partners in the Existing Homes Alliance are pleased that the Scottish Government has heard this message and have announced a National Retrofit Programme aimed at maximising Energy Company Obligations and starting in the most fuel poor areas first. We have also welcomed the establishment of a reactive fund to assist those in fuel poverty outside these areas, albeit that we would

²² Scottish Government, (2009), *Energy Efficiency Action Plan consultation – Conserve and Save – A Consultation on the Energy Efficiency Action Plan for Scotland*, p75. Available at <http://www.scotland.gov.uk/Resource/Doc/287719/0087747.pdf> (accessed 24th August 2012)

²³ Existing Homes Alliance (2011), *Declaration on the Future of Scotland's Existing Homes*. Available at <http://www.existinghomesalliancescotland.co.uk/declarations> (accessed 24th August 2012)

wish to see sufficient resources in place to assist every Scottish household which is in fuel poverty.

60. There is much still to be done in order to meet the 2016 fuel poverty target and achieve the carbon emissions reductions set out in the Climate Change Act. SFHA would wish to see a mix of widely available low interest loans, council tax rebates and grants which will make low carbon choices possible for all.

61. As we have highlighted above, the Scottish Government has estimated the cost of meeting the existing targets at £16b. This is a significant investment requirement. Investment in the energy efficiency of Scotland's housing would provide three major benefits - it would reduce fuel poverty, combat climate change and provide a major boost to Scotland's economy. Housing is a labour intensive industry and so investment in retrofit and new build would provide a greater boost than investment in other forms of infrastructure. Investment would also boost the renewables sector and SMEs that provide low carbon technologies or specialise in low carbon new build homes.

62. Scotland's housing associations and cooperatives, however, are under significant financial pressures. Welfare reform is likely to lead to reduced income and increases in rent arrears, while cuts in grant for new build affordable homes have also affected landlords' finances. While the SFHA and its members support improved energy efficiency, we do not believe that the proposed energy efficiency standards can be met without significant additional investment.

63. Housing associations and co-operatives do have reserves, but these are already largely committed to the future maintenance of stock and prudent risk cover. In addition, our sector will need to assess the additional investment required to meet the proposed requirements in the Sustainable Housing Strategy and the Energy Efficiency Standard for Social Housing.

64. SFHA urges the Committee to ensure that sufficient public resources are made available in order that the Scottish Government's very laudable energy efficiency and fuel poverty targets are met.

The Power of Preventative Spending

65. In our evidence to the Committee in 2011, we outlined the advantages to be gained to the Scottish Budget by prioritising investment in housing and housing related services.

66. To meet the challenge of delivering more with less, the Scottish public sector needs to move the emphasis of spending priorities from expensive "crisis-response" models of provision towards more "early intervention" preventative services.

67. Public services in Scotland continue to face a challenging financial future. Public sector finances will remain constrained for some time against the background of a continued emphasis on deficit reduction over the term of the current UK Parliament.

68. At the same time, a range of different forces are driving demand for public services upwards, including:

- the changing demographics arising from an ageing population which will not only increase but change the nature and profile of the service provision required to meet demand;
- the effects of the recession which may see increased demand on health services, employment services, the social welfare system, justice and education.

69. Scotland's housing associations and co-operatives deliver a range of preventative services across the following: older people's housing; housing adaptations; housing support services; community regeneration.

Older People's Housing

70. The housing association and co-operative sector is well known for providing combined housing and support services in sheltered, very sheltered, extra care housing, medium dependency housing and housing suited to people with varying needs – in communal non-institutional settings. This complements the provision by health and social care agencies in caring for older people in homely settings, helping them to remain independent for the longest possible time.

71. In addition, associations and co-operatives provide care and support to allow many older people to live comfortably and independently in their homes in the community. They do this by:

- Arranging and undertaking adaptations to the home (with part-funding from the Scottish Government);
- Helping older owner occupiers to fund and undertake repair schemes (Care and Repair);
- Providing information and advice on housing options;
- Organising low-level support services, e.g. odd jobs services, garden maintenance, stair cleaning.

72. The full range of the services our sector provides not only delivers good quality living environments for older people but also represents potential savings to pressured Health and Social Care budgets. Our sector delivers these services to people who could and possibly would otherwise have to be admitted to much more expensive care homes or hospital care. This vital work is funded from a variety of sources, all of which has been under pressure in recent years and which, in many cases, look precarious in the months and years to come.

73. Earlier this year, SFHA commissioned research to gather broad information about the range of housing and support services that housing associations are providing to older people. We are grateful for the funding support of the Joint Improvement Team (which is co-sponsored by the Scottish Government, COSLA and NHS Scotland), which enabled us to commission the research.

74. The research highlights that the two most common sources of funding are rental income/deficit funding and local authority funding. A very small number received funding from a Health Board. The majority of the housing associations and co-operatives who responded to the research survey expressed the view that the impact of the future funding would be detrimental for older people living independently in the community currently and in the future.

75. Just under a third of the 103 organisations who participated in the research had made applications to the Change Fund but only 31% of these applications were successful. SFHA is acutely aware that many housing associations and co-operatives are having difficulty accessing the Change Fund. This will form part of our response to the current Scottish Government consultation on the Integration of Adult Health and Social Care.

76. As we have outlined above, Housing has a key role to play in the emerging Health and Social Care Partnerships. But there are currently some key strategic and operational disconnects between Housing, Health and Social Care. These need to be addressed to ensure that housing providers are properly included in commissioning health and social care plans etc. It is only by doing this that the preventative spending contribution of housing and its related services can be harnessed for the full benefit of the public purse.

Adaptations

77. The provision of adaptations to existing properties is one area where preventative spending can save millions. A study undertaken by Bield, Hanover and Trust housing associations last year showed cost savings of £5.50 to £6 per £1 invested in Stage 3 Adaptations in sheltered or very sheltered accommodation.²⁴ The Scottish Government alone saved £3.50 to £4 for every £1 it invested, with savings being made by preventing the need for hospital stays or for tenants to move to care homes.

78. The Committee will be aware that there have been extensive discussions between our sector and the Scottish Government about adaptations funding. We are pleased that an earlier move to reduce this funding has been reviewed.

79. The Scottish Government has already enacted some significant streamlining changes to the current year's adaptations budget, in terms of how it is administered and how landlords can deploy their resource allocation. This has freed them from previous geographical constraints and allowed them to be more effective and efficient in their investment decisions. SFHA has welcomed this. We have also welcomed the Scottish Government's decision to maintain the RSL Adaptations Fund at £8million for 2012/13. This sent a strong signal to the housing association and co-operative sector, as well as to health and social care partners, about the

²⁴ Bield, Hanover (Scotland) and Trust Housing Associations(2011), *Measuring the Social Return on Investment of Stage 3 Adaptations and Very Sheltered Housing in Scotland*. Available at <http://www.hsha.org.uk/SiteCollectionDocuments/Measuring%20the%20Social%20Return%20on%20Investment%20of%20Stage%203%20Adaptations%20and%20Very%20Sheltered%20Housing%20in%20Scotland%20Assured.pdf> (accessed 24th August 2012)

value and importance of investing in adaptations at a time of increasingly challenging budgetary pressure for the Scottish Government.

80. We would hope that this message will be further underpinned by increased funding in the forthcoming budget round and we would urge the Committee to do its utmost to support the “decisive shift” towards preventative spending that it promised in the wake of the Christie Commission report.

81. SFHA has responded to the recent Independent Adaptations Working Group consultation on the future of adaptations funding. We have urged caution with regards to the model of adaptations delivery that the Scottish Government decides to implement. We have recommended that the Scottish Government seeks to adopt as flexible an approach as possible, reflecting the realities of the service users and service providers involved in different localities across Scotland, rather than insisting upon adaptations being made part of the health and social care system.

82. It may be that, over time, health and social care partnerships develop to the extent that they are capable of delivering adaptations on a fair and equitable, tenure-neutral basis, but in the short term we have doubts about whether this is actually going to be viable. We have therefore recommended that the Scottish Government and the Adaptations Working Group steer away from the health and social care model for the short to medium term, for at least as long as it takes to ensure that a robust and effective housing involvement has been established in Health and Social Care Partnerships. We believe it would simply be too risky for that approach to be adopted at a time when every penny counts – and we simply cannot afford to risk seeing money disappear from adaptations budgets, as could potentially be the case.

83. Constraints upon funding for new housing supply will inevitably mean that there will be an even greater need to look at adapting existing housing stock. Whilst SFHA will continue to emphasise the essential importance of increasing adaptations budgets in the short to medium term, we believe that committing to truly preventative spending requires the Scottish Government to invest more in new build stock which meets the lifetime needs of all Scotland’s citizens. This needs to happen across all tenures, including the housing association and co-operative sector, which can provide low cost home ownership, extra care and other forms of specialist housing for affordable rent.

Housing Support

84. Housing Support services continue to be funded through local authorities, although the budget has not been ring-fenced since 2008. As we stated in our submission to the Christie Commission last year, we are very concerned that since the removal of the ring fence, local authorities have redirected their diminishing resources away from low-level preventative support towards social care budgets where they have statutory duties to meet.²⁵ Whilst we recognise this is partly driven by the budgetary pressures they face, local authorities must be encouraged to take a longer term view and see investing in low level, preventative housing support

²⁵ SFHA (March 2011), *Response to the Commission on Future Delivery of Public Services’ Call for Evidence*. Available at http://www.sfha.co.uk/component/option.com_docman/Itemid,37/qid,932/task,doc_download/ (accessed 24th August 2012)

services as part of the Health and Social Care integration agenda. Ensuring upstream services such as housing support are properly funded, even in times of austerity, must be a central part of this agenda.

85. The housing support services provided by housing associations and co-operatives enable otherwise vulnerable people to live independently. In some cases, this means helping people move on to more settled accommodation and become more self-sufficient, whilst in other cases support is much longer term and may be linked to a person's accommodation in some way. Evaluation studies completed in different parts of the UK have shown that investing in housing support via housing support services delivered significant savings to other budgets including health, homelessness and residential care. Research carried out in Scotland in 2007 demonstrated benefits of £441m, compared to an overall cost of housing support of £402m,²⁶ whilst in England the Department for Communities and Local Government reported in 2009 that a spend of £1.61b on housing support resulted in £3.41b benefits.²⁷

86. The Christie Commission Report recognised the role of preventative services and this was welcomed by our sector. Despite this, housing support services continue to be under severe budgetary pressure. Recent uncertainty around the future of Housing Benefit for both temporary and supported accommodation has exacerbated providers' concerns. Many housing support providers have found themselves having to provide services that cost more than they receive in revenue, simply to ensure that vulnerable people retain the support they need to live independently in their own homes. This is unsustainable.

87. SFHA works closely with the Housing Support Enabling Unit (HSEU), which is funded by Scottish Government to support and assist providers of housing support across Scotland. An HSEU report on local authority funding of housing support in 2011-12 and 2012-13 concludes that:

“Local authorities have been able to distinguish housing support in their budgets to a greater extent than was originally feared they would continue to do when the ring fence was lifted from the Supporting People grant in 2008. The funding of housing support has nevertheless reduced at a faster rate than overall levels of local authority funding. The picture does vary, however from one local authority to another with the level of change in budgets varying from small increases to very large reductions. This is of particular concern where reductions are being pursued in consecutive years as is the case in at least 13 areas.

Local authorities have highlighted re-modelling of services and reducing contract values through efficiency savings as the way they have managed their tight budgets rather than cutting service volume. In 2010 the HSEU gathered evidence that local authorities were adopting a ‘more for less’ approach⁸ to the funding of housing support and this appears to be ongoing. Further investigation would be needed,

²⁶ Tribal Consulting (2007), *Supporting People Costs and Benefits- Final Report*, Scottish Government Social Research. Available at <http://www.scotland.gov.uk/Resource/Doc/207283/0055011.pdf> (accessed 24th August 2012)

²⁷ Ashton, T and Hempenstall, C, (July 2009), *Research into the financial benefits of the Supporting People programme*, Capgemini Consulting for Department for Communities and Local Government. Available at <http://www.communities.gov.uk/publications/housing/financialbenefitsresearch> (accessed 24th August 2012)

however, in order to be able to comment on the extent to which services are actually being maintained and the impact this approach is having on quality and availability of those services."²⁸

88. Given the savings that stand to be made by investing in housing support, it is vital that housing support services be given increased priority not just by local authorities but by their health and social care partners too. This requires a clear recognition by Government and other partners of the preventative role of housing support. We believe that funding housing support services properly will become increasingly important as the Scottish Government pushes forward with the health and social care integration agenda, and also with the rollout of its Housing Options Hubs programme.

89. Housing support services also have a vital role to play in helping Scottish housing providers meet the 2012 Homelessness target. Having set such a ground breaking and ambitious target in 2003, the Scottish Parliament must do all it can to ensure this target is met. With so many housing associations and Third Sector agencies providing excellent preventative housing support services that help deliver upon government objectives, we believe strongly that the Parliament must ensure that a greater allocation of funding is made available for vital housing support services in this and future years.

Community Regeneration

90. The community regeneration work that housing associations and co-operatives have been delivering across Scotland over the past decade, with the assistance of the Scottish Government's Wider Role programme fund, has had powerful economic and social impacts.

91. One of the key strengths of the former Wider Role programme was that it enabled housing associations and co-operatives to lever in additional finance from a variety of different sources, including their own reserves (where possible), to develop services and infrastructure for some of our most disadvantaged and deprived local communities.

92. In terms of the overall profile of Scottish Government spending, it was a relatively small fund with a budget of just £6m for 2011/12. In 2010/2011 Wider Role funding (which was budgeted at £10m) directly supported 103 housing associations and co-operatives to take forward 261 projects (a mix of continuation and new projects) across all 32 local authority areas.

93. Housing associations and co-operatives are also important employers in Scotland, providing work for 11,600 full-time staff. The role of housing associations and co-operatives in employment is wider than this, however. Many of our members take on apprentices, which not only provides employment for young people in the short term, but also makes them more employable in the long term. As part of the wider role of housing associations and co-operative in the communities they serve,

²⁸ Housing Support Enabling Unit (May 2012), *Local authority funding of housing support in 2011-12 and 2012-13*. Available at [http://ccpscotland.org/assets/files/hseu/Publications/HSEU_LA_fundingreport\(2\).pdf](http://ccpscotland.org/assets/files/hseu/Publications/HSEU_LA_fundingreport(2).pdf) (accessed 24th August 2012)

many of our members also run employability skills courses and offer support into employment for their tenants, for example by sourcing work placements.

94. Research has shown that addressing poverty and unemployment reduces crime.²⁹ Our sector's employability work has therefore delivered cost savings to the police and the criminal justice system, as well as improving the lives of the people who might otherwise have become criminals. Housing regeneration, combined with job creation, stabilises communities³⁰ – surely a key element of any economic sustainability and preventative spend agenda.

95. Based on the latest unpublished Scottish Government data, we understand that for every £1 spent on Wider Role in 2010-11, housing associations and co-operatives managed to lever in an additional £2.62. This leverage ratio means that, even from a relatively small pot of funding, it has been possible to deliver significant and much-needed investment into some of the poorest areas of the country. This has delivered a diverse range of projects that have improved the quality of people's lives via increased employability, financial inclusion, environmental improvements, and improved community health and wellbeing. This scale of leverage is a significant benefit to the taxpayer, particularly at a time when key decision makers in Scotland are facing difficult financial decisions and looking for the "added value" and economic impact that their spending decisions can deliver.

96. The Scottish Government's Wider Role funding stream has been replaced by the People and Communities budget heading. Its budget for 2012-13 has been at the same level as for the former Wider Role Fund, yet it is open to a wider range of providers than solely housing associations and co-operatives. SFHA would not wish to prevent other agencies from accessing the new Fund, but we would wish to see a dedicated pot for our sector, given the track record of our community regeneration activity to date.

97. Also, we are concerned that the People and Communities Fund is not accepting applications for funding for tenancy sustainment initiatives. In our submission to the Committee last year, we highlighted the significant work being undertaken by our sector in this field and showcased Horizon HA's Early Intervention Tenancy Support Service, which had received Wider Role funding of £83,000. Tenancy sustainment services are becoming ever more critical as the UK Government's welfare reforms begin to roll out. This is one area where the Scottish Government could make a significant contribution to the mitigation of the detrimental impacts of the welfare reforms.

98. We would also wish to take this opportunity to highlight a couple of suggestions that we made within our written evidence³¹ to the Committee on the impact of welfare reform. We set out three areas where we would encourage the Scottish Government to consider assisting financially:

²⁹ Monk, S., Tang, C. and Whitehead, C. (2010), *What does the literature tell us about the social and economic impact of housing?*, Report to the Scottish Government: Communities Analytical Services. Available at <http://www.scotland.gov.uk/Resource/Doc/313646/0099448.pdf> (accessed 24th August 2012)

³⁰ Monk et al (2010), as above.

³¹ SFHA (June 2012), *Evidence to the Finance Committee on the Impact of Welfare Reform*. Available at http://www.sfha.co.uk/component/option.com_docman/Itemid,82/qid,2244/task,doc_download/ (accessed 24th August 2012).

- Assisting with the cost of advice to social tenants via a series of national promotional campaigns about the welfare reform changes;
- Promoting the use of bank accounts and credit unions, building on lessons we anticipate from the Scottish Demonstration Project;
- Ensuring that the Scottish Government's digital inclusion strategy takes account of the expectation that the majority of Universal Credit claims (and reporting of changes of circumstances) will be made online.

99. Housing associations and co-operatives across Scotland work to alleviate poverty amongst their tenant base. They do this partly because it is estimated that 84% of financially excluded people live in social housing,³² but also because they can reach those most in need of early intervention and are often the best resourced agencies in deprived areas, being organisationally stable and well-regulated. Preventative spending is at the heart of financial inclusion initiatives. Working with tenants in the midst of a crisis is more time consuming and costly than investing in early intervention. There is also a strong business case for housing associations and co-operatives to invest in financial inclusion activity. As well as reducing rent arrears, costs associated with eviction, tenancy abandonment and voids are reduced.

100. Housing associations and co-operatives are involved in the following community regeneration activities, all of which provide great value, prevent future expense to the state and contribute to economic sustainability: IT training; literacy and numeracy training; tenancy sustainment support; benefits advice; utilities advice; debt advice; older people's; children and youth work; equal opportunities programmes; employability training and support; work placements and apprenticeships; healthy eating projects; sports and outdoor activity; environmental education and projects; renewable energy education and projects; preserving historic buildings; providing community halls and facilities.

101. SFHA urges the Committee to ensure that the housing association and co-operative sector's valuable community regeneration activity can continue by providing the public purse contribution that is required to deliver the significant additional economic and social benefits that have been produced to date.

Conclusion

102. Without serious investment in genuinely affordable housing and related support services, our poorest communities will be left exposed at an extremely vulnerable time. The combined impact of the recession and the reforms to the welfare system will have a high social cost. The Scottish Parliament must act now to set the parameters of Scotland's economic recovery in terms of rebuilding communities, rebuilding lives and rebuilding Scotland's future.

³² Joseph Rowntree Foundation, (July 2008), *Financial Inclusion in the UK: Review of Policy and Practice*. Available at <http://www.jrf.org.uk/publications/financial-inclusion-uk-review-policy-and-practice> (accessed 24th August 2012)