



## **Local Government and Communities Committee**

### **Scrutiny of the draft Budget 2017-18**

#### **Summary of written evidence – housing supply**

##### **Introduction**

The Scottish Government's Draft Budget for 2017-18 is not expected to be published until 15 December 2016. In light of this, the Local Government and Communities Committee agreed to undertake pre-budget scrutiny looking back at what has actually been spent in 2015-16 and (to the extent possible) in the current budget year 2016-17. The Committee launched its [call for evidence](#), featuring questions on both local government budget and housing supply budget, on 19 September.

The Committee received 31 submissions, broken down as follows—

- 11 submissions from local government bodies;
- 1 submission from a public sector body;
- 12 submissions from professional and other bodies;
- 4 submissions from third-sector organisations;
- 1 submission from an academic; and,
- 2 submissions from trade unions.

This paper provides a summary of the main points raised in the submissions, and is structured around the housing supply questions asked in the call for evidence. A list of all the submissions received can be found at:

<http://www.parliament.scot/parliamentarybusiness/CurrentCommittees/101252.aspx>

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**Question 5: How well the centrally managed funding programmes are managed, what outcomes they deliver and do they represent value for money?** In 2016-17 around £283m (about 41% of the total housing supply budget) was devoted to centrally managed programmes. Centrally managed funds include the Help to Buy scheme, Open Market Shared Equity, Home Ownership Support Fund and other innovations such as the Local Affordable Rented Trust).

**To what extent are the innovative funding packages leading to a change in the way affordable housing is being delivered?** (information on innovative financing is available on the Scottish Government website at this [link](#)).

**The extent to which the centrally managed funds support development of the appropriate mix of affordable housing to meet housing needs (such as mid-market rent as compared with social rent or private rent)?**

Many respondents, including West Lothian and Orkney Islands Councils and the Association of Local Authority Chief Housing Officers (ALACHO), reported that the centrally managed programmes were well managed. ALACHO thought that they were delivering outcomes that are in line with Local Housing Strategies and Strategic Housing Investment Plans. Homes for Scotland commented that the operation of the Help to Buy scheme was patchy to begin with. But the commitment of three year funding in 2016 was welcomed.

#### *Value for money*

ALACHO suggested that value for money was being achieved and there was plenty of evidence of significant efforts to control costs, improve procurement and achieve better standards.

East Ayrshire Council referred to the lower level of subsidy available to councils compared to RSLs (discussed more below) and that the balance of the capital cost must be paid for via borrowing and rents. They argued that value for money considerations must go beyond the initial capital cost to the ongoing borrowing required by the affordable housing developer and the affordability of the resultant rent. West Lothian Council and Orkney Islands Council considered the Open Market Shared Equity Scheme to provide value for money. It was pointed out that government funding is repaid when the property is sold. Homes for Scotland made a similar point about the Help to Buy scheme and suggested that it does more than support those customers who qualify. An additional benefit was that it gives confidence to builders to open up new sites. On the other hand, Shelter Scotland said they have consistently questioned whether schemes to underwrite increased home ownership per se provide value for money in light of the scale of backlog housing needs.

#### *Link between central programmes and local programmes*

There were some comments to suggest there could be better linkages between the centrally managed programmes and locally developed programmes. Fife Council referred to a lack of a 'big picture.' Argyll and Bute Council welcomed the range of initiatives but also thought it was confusing for prospective buyers and tenants. They

indicated that it would be useful for the council to receive information on the uptake of centrally managed funds for planning purposes (as did East Ayrshire Council).

Similarly, the Scottish Local Government Partnership (SLGP) said it would welcome clarity on the priorities of centrally managed funds and how they contribute to the delivery of local as well as national outcomes, and local housing needs.

SLGP noted that it can be more efficient and appropriate to manage and distribute funding centrally but in some cases elements of the budget could potentially be better served as local funding streams. They suggested that periodic challenge funding, e.g. that to tackle town centre/ empty homes did not always lend itself to the strategic approach required by councils (similar points were made by Renfrewshire, Orkney Islands, West Lothian and Highland councils).

### *Innovative funding mechanisms*

Glasgow and West of Scotland Forum of Housing Associations (GWSF) and Scottish Federation of Housing Associations (SFHA) suggested that the role of innovative funding mechanisms was at the fringes of the mainstream programme. It was noted that the innovations particularly supported the use of mid-market rented housing. Although there was a role for this in some areas in many areas the greatest need was for social housing. GWSF argued that only decent levels of grant could support the development of social rented housing. East Ayrshire Council was supportive of innovative funding where they met housing needs and offered the reassurances developers require in terms of due diligence. But they said models which are founded on short term affordable housing delivery which is not sustained do not meet the needs of people who seek long term security.

Professor Gibb noted that, in a context of sustained budgetary pressures and a need to target scarce public resources, it was right that the Scottish Government sought to move beyond traditional funding models. Homes for Scotland welcomed the development of innovative funding packages that have resulted in greater variety and creativity in the delivery of affordable housing.

CML indicated that there continues to be a strong supply of private funding and investment at competitive rates for RSLs. Given this, they suggested that innovative funding approaches could continue to supplement funding from traditional sources. They suggested the development of alternative sources could be accorded a lower priority at this time.

Unison Scotland outlined their proposals, with the support of SFHA, for innovative financing to invest in housing needs, using some of the assets represented by public sector pension funds. They indicated there had been some limited take up of this proposal and they urged the Scottish Government to do more to make it happen widely.

Renfrewshire Council and Professor Gibb commented that it was difficult to assess the impact of innovative funding packages, because it was too early to assess that or there was a lack of information. They noted there had been no evaluation of the Help to Buy scheme in Scotland and suggested this may be worthwhile.

### *Supporting the appropriate mix of housing needs*

Renfrewshire Council noted that there is considerable variation across Scotland in housing market conditions and the applicability of centrally managed programmes will vary. SFHA and Orkney Islands Council considered that the mix of housing supported was about right. Shelter Scotland commented that it was too early to tell whether the combination of programmes which the Scottish Government has is the optimal mix to deliver the 50,000 target. Similarly, in advance of the next round of Strategic Housing Investment Plans (SHIPs), they indicated that it was not clear whether local plans are fully aligned with that target and with local assessments of housing need.

### *Mid-Market rented housing*

Some evidence suggested there was demand for mid-market rented housing and that it played an important role in meeting affordable housing need (e.g. Highland and Aberdeenshire Council).

Highland Council thought the mid-market rented scheme should be linked with assistance for mid-market tenants to take up the option to buy at the end of the tenancy, as this presents an important way to support people into home ownership. Similarly, West Lothian Council noted the importance of schemes that provide sustainable, long term options so that tenants have a good understanding of the implications of their tenure choice.

Professor Gibb argued that housing need studies did not deal well with the private rented sector. He argued that the extra capacity that mid-market rent or affordable rent, or even shared equity, provide was required but said that classic value for money questions remain unanswered about the social return and the cost of providing these different models.

Aberdeenshire Council noted that the delivery of mid-market rent can be more challenging given the significant drop in rents in the private sector in the Aberdeen Housing Market Area. The viability of some mid-market schemes has been affected, particularly in light of the inability of Aberdeenshire Council's limited liability partnership *Create Homes Aberdeenshire* to access the same grant that is available to RSLs.

### *Home-ownership*

There were mixed views on the schemes supporting home ownership. There was some support for schemes that promote home-ownership, particularly the Open Market Shared Equity scheme (Aberdeenshire, Orkney Islands and West Lothian Councils).

Homes for Scotland were supportive of the Help to Buy (Scotland) Affordable New Build Scheme ('Help to Buy' scheme) but expressed some concern that the level of funding will not be adequate to support sales. The price caps for the scheme are being reduced over the next couple of years. They had concerns about the coverage of the scheme arguing that it needed to be available throughout the country instead of just concentrated in certain areas where the lower price cap remains viable such as in Glasgow. CML welcomed the recent refining of criteria for the scheme to target the

limited funding available. In England there a commitment has been made to fully fund the scheme until April 2021. They would welcome a similar commitment in Scotland. The CML said that shared ownership could be a tenure that receives more profile and investment in Scotland. They also recommended that the Scottish Government should reflect on, and take account of, the impacts of Land and Building Transaction Tax. They argued that this can cause blockages or distortion across the housing market due to stagnation of sales at the top end of the market.

Other evidence was less supportive of the amount of resources dedicated to home ownership (SLGP, Shelter Scotland, Unison Scotland). SLGP noted that almost a quarter of total funding (23.2% of the 2016/17 budget, £160m of £690m) was dedicated to schemes supporting home ownership. They suggested that Help to Buy had less of a clear link to helping households who might otherwise be on housing lists than the Open Market Shared Equity Scheme.

Shelter Scotland also commented that such schemes may simply allow households to vary the timing or scale of housing purchase, and in a way which provides little long-lasting benefit beyond the initial purchase. They argued the challenge for government is to ensure that home ownership is both easier to access and to sustain but without the level of direct financial commitment currently allocated.

#### *More detailed comments on specific funds*

*Rural housing fund* - Orkney Islands Council welcomed the Rural Housing Fund and valued the flexibility it offered. On the other hand, CIH Scotland argued that the criteria for the scheme prevented other rural but less remote areas from benefitting. They recommended the criteria should be revised so that awards are based on need and outcomes for rural communities, rather than geography alone.

*Open market shared equity scheme* - Argyll and Bute Council were concerned about the threshold levels set for their area for their area. In the most pressured housing market areas of Oban and Lorn, Helensburgh, Mid Argyll and the islands, the thresholds are too low to make this a realistic alternative for first time buyers. On the other hand, Orkney Islands Council welcomed the increased benchmark levels of 2016 and said that it had improved the ability of households to find properties that are eligible.

Orkney Islands Council also highlighted a gap in low cost home ownership options for people who do not want to live in more urban areas because, for example, developers do not want to take on the risk of delivering very small numbers in rural areas. They were anticipating the results of the self-build pilot project that is being run in Highland as this style of project may help fill the gap left by the removal of the rural home ownership grants.

#### **Question 6: To what extent do the Resource Planning Assumption and the Strategic Local Planning Agreements processes effectively enable local housing needs to be prioritised and resourced?**

There were many positive comments about the Resource Planning Assumptions (RPAs) and Strategic Local Planning processes (SPLA) (e.g. Orkney Islands, Renfrewshire, Inverclyde councils). It was suggested that the system has “moved on

massively in recent years...” (Professor Gibb). Some noted that the RPA’s had reduced the risk and improved planning process (Argyll and Bute, Orkney Islands Councils).

Homes for Scotland mentioned a lack of flexibility in the SLPA process regarding a lack of willingness of local authorities to add ‘shovel ready’ projects to SHIPs/programmes. They also suggested that an affordable housing credit system be considered where it is possible to deliver more affordable units on one site if for viability reasons they cannot be they can then deliver less on another. They said that this works in Perth & Kinross, Moray and Aberdeenshire and they are keen to see this flexibility rolled out throughout the country.

NHS Scotland encouraged the involvement of local public health teams in developing local housing strategies, given the impact good housing can have on health. They referred to some good examples of housing being well integrated into Strategic Commissioning Plans; this work could be built on and replicated across each local authority.

GWSF raised the issue of the extent to which local community controlled housing associations are able to contribute to the programme. It was suggested there was a mixed picture. Their evidence argued that in some areas, most notably Easterhouse, community controlled housing associations have lost out because the Council has prioritised sites for Glasgow Housing Association, other associations in the Wheatley Group, or other large associations such as Sanctuary.

#### *Longer planning timescales*

Councils are currently given a 3 year Resource Planning Assumption with minimum grant planning assumptions. Some comments suggested that it would be useful to have longer term funding commitments (CML). The Scottish Government have committed to introducing five year RPAs (SLGP welcomed this). SLGP said it would be helpful if there were more certainty of a higher percentage RPA for a longer period of time. This would assist with programme delivery in that there would be greater certainty about the annual amount. Similar points were made by others (e.g Aberdeenshire Council ) although it was recognised this may be harder for the Scottish Government to give without a longer term funding agreement between the UK and Scottish Governments (Orkney Islands Council).

#### *Housing needs of disabled people.*

The Independent Living in Scotland project was critical of the planning processes and argued that Strategic Local Planning Agreements did not effectively enable the local housing needs of disabled people to be established, prioritised and resourced. They believed that national strategic intervention was required to address this. They argued that there was a ‘tacit assumption’ amongst housing professionals and other decision makers that the housing needs of disabled people were being met. But they argued that their evidence suggests that the current housing system is failing to meet the needs of disabled people, particularly in relation to wheelchair users. They argued that appropriate decision makers need to commit to ensuring that 10% of new build developments of 20 or more units for sale or rent are built to, or easily adaptable to wheelchair accessible standard.

The SLGP said that Transfer or Management Development Funding (TMDF) authorities would welcome discussion on streamlining the SLPA process to best reflect how the programme is managed.

**Question 7: We seek written responses on whether the increased subsidy levels will support new housing developments; and in particular whether the flexibility in subsidies will improve the provision of housing for older people or for people with particular needs.**

Many of the submissions welcomed the increase in subsidy levels (e.g. SFHA, ALACHO, Homes for Scotland, Renfrewshire and East Ayrshire Councils and GWSF), although it was pointed out though that subsidy levels had been cut in previous years and were just back around 2009 levels (GWSF, Renfrewshire Council).

It was suggested that increased subsidies had allowed providers to increase their development programme or to start developing again (SFHA, Renfrewshire Council, ALACHO). However, Orkney Islands Councils indicated that subsidy levels in its area may need to be increased to make developments viable.

#### *Older people and people with particular needs*

The SFHA noted that the Subsidy Working Group had recommended a separate fund for special needs housing – the recommendation was not accepted but the Scottish Government said there should be greater flexibility in funding projects above the benchmark grant levels.

Reference was made to the higher costs of developed specialist accommodation (Independent Living in Scotland project, Orkney Islands, East Ayrshire and West Lothian Councils). It was suggested that higher levels of subsidy would be needed to continue to develop such accommodation. East Ayrshire Council was disappointed that a small additional subsidy for this type of provision was not brought forward. The Independent Living in Scotland project welcomed increased subsidies but suggested incorporating a level of additional grant targeted at improving provision by encouraging building to wheelchair user standard in all tenure types.

ALACHO thought that there was sufficient flexibility within the system to develop this type of housing. Others (eg SFHA and GWSF) said it was too early to say whether increased benchmarks and flexibility will lead to significantly more new housing for people with particular needs. GWSF thought that most of any specialist provision will be at the 'lower' end of the spectrum, as highly specialist provision would need much higher levels of subsidy and also guarantees of future support/care funding. Concern was expressed about ongoing revenue support for such housing and the impact this may have on new developments (SLGP, ALACHO). Revenue support is discussed under question 8 below).

It was noted that the majority of specialist provision was in the social rented sector which is likely to narrow the options open to wheelchair users (GWSF). Some suggested that the provision of older people's housing in other tenures should be looked at as a way of meeting demand whilst improving options of older people. (Homes for Scotland, CML and the Independent Living in Scotland project). CML also

said that issues around delivering older people's housing should be considered in the mix of related issues including how property taxation might be used to support older homeowners to downsize.

### ***Different council and RSL subsidy benchmarks***

The different subsidy benchmark levels<sup>1</sup> for councils and RSLs were raised by a few respondents (including Fife and West Lothian councils and ALACHO SLGP).

Professor Gibb thought that it seemed reasonable on value for money grounds that councils should have lower grant rates but he was not clear that the right differential had been achieved. The SLGP pointed out that many councils have large historic debt burdens which constrain their capacity for investment in new-build programmes. Orkney Islands Council indicated it had used some of its oil reserve money to support its affordable housing development programme but this was not sustainable beyond the currently approved projects.

***Shared Equity Schemes*** - Housing association shared equity schemes have been very successful in delivering low cost home ownership as part of mixed tenure developments. However, grant benchmarks for shared equity were not increased in 2016 and the 2014 guidance (£40,000) makes it difficult to deliver shared equity (Renfrewshire Council).

***Other flexibilities*** – GWSF suggested that additional flexibility would be needed for sites where significant remediation work is needed, for example to address contamination on former industrial sites and where there was a need to improve the physical and social environment. They suggested it was too early to assess the extent to which councils are willing to discuss enhanced rates in reflection of the flexibility they have.

***Innovation:*** Homes for Scotland argued that increased subsidy levels should not stop innovation. For example, through procurement routes with the introduction of a standard product range. They indicated that feedback from their home building members suggests that at the moment there is a different design brief and expectation of finished product for every new affordable scheme which may not result in the best use of money.

### **Question 8: Do you have any other comments to make about the outcomes the Scottish Government seeks from its Housing Supply Budget and how it delivers those outcomes?**

Comments were made to suggest that the outcomes are ambitious and the commitment to funding is welcomed (e.g. SLGP, CIH Scotland, Shelter Scotland, NHS Scotland). It was noted there was cross-sector support for the 50,000 target (East Ayrshire Council). Shelter Scotland regarded that the 50,000 affordable homes target as a minimum and recommended that the Scottish Government should commit to carrying out its own assessment of housing need during the programme period.

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<sup>1</sup> Councils have a flat rate subsidy of £57k or £59k (greener standard) while the RSL subsidy varies from £70 -£84k per unit .

Unison Scotland argued that the figure falls short of the estimated 60,000 units required.

A range of other comments were made, not all directly relating to the housing supply budget.

### ***Other barriers to housing development***

Respondents highlighted other challenges that could threaten the delivery of the 50,000 affordable homes target. Land and infrastructure problems, planning issues and a lack of skills were highlighted (e.g. Homes for Scotland, Shelter Scotland, CIH Scotland). East Ayrshire Council said that the current RPA and SLPA processes do not sit in isolation and must be factored into the broader remit that stretches from suitable land identification to site completion and ultimately the delivery of new affordable homes.

#### *Infrastructure Fund*

Homes for Scotland welcomed the Housing Infrastructure Fund but wanted to see the Scottish Government offer further support. For example, it said that education provision could not be included in the fund given its financial limits but home builders are unable to afford to do this upfront. They argued a facility such as the Infrastructure Fund could go a long way to make the difference if its lending ability was increased. Highland Council would like to see an expansion of the infrastructure loan fund to ensure sufficient land to deliver the programme.

Shelter Scotland noted that the scale of funding available (£50m) is relatively small against the cumulative infrastructure funding needs emerging from Local Development Plans.

### ***Revenue funding and the Impact of welfare reform***

ALACHO and CIH Scotland were more concerned about revenue funding rather than capital funding for new build<sup>2</sup>. GWSF said that welfare reform posed a “significant threat” to the 50,000 target. SFHA attached a copy of their submission to the Social Security Committee detailing their concerns about welfare reform. ALACHO raised concerns about the impact on temporary accommodation for homeless people.

Particular comment was made about the plans of the UK Government to restrict social tenants’ housing benefit to the Local Housing Allowance (LHA) rate which is used to determine private tenants’ housing benefit (SFHA, GWS, ALACHO, CIH Scotland). GWSF cited an example of how one housing association could not make a development stack up financially because of this.

The same restrictions will be applied to tenants in supported accommodation although that measure has been delayed. The UK Government will fund supported accommodation up to the LHA rate and the Scottish Government will fund put in place measures to fund the remaining costs. ALACHO indicated that there was still likely to be a shortfall in funding and argued the Scottish Government should set aside

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<sup>2</sup> The majority of the housing budget is capital funding.

resource to support this shortfall. They also suggested that rules around the provision of funding for new social housing should be amended to allow, where the local housing strategy demonstrates a need, to allow councils to access this funding for new temporary and interim accommodation.

Shelter Scotland referred to the introduction of benefit caps which they thought would produce a rationalisation and reduction of temporary accommodation charges and may pose a risk to homelessness services.

**Homelessness and mental health:** ALACHO suggested that there could be improvements in the scope and effectiveness of mental health services available to those facing “multiple exclusion” homelessness. They argued that the Health and Social Care Joint Integration Boards should be asked specifically to work with local authority homelessness services to develop a strategic response to this need in the context of the finalised 10-year vision for mental health services and to provide local estimates of the additional funding required or resource transfer options.

**Private rented sector** - CIH Scotland highlight that local authorities’ work to enforce private rented sector regulations are often constrained by a lack of resources. They (along with ALACHO) recommend that private landlord registration fees are increased. CIH Scotland said the Scottish Government should consider other options for funding enforcement powers.

**Additional Dwelling Supplement** – it was suggested that there was a conflict between the policy of increasing supply and the ADS (3% Land and Building Transaction Tax supplement on purchases of additional residential properties). Councils and RSLs are not exempt from this 3% tax. Local authorities would need to pay this anytime they want to buy back ex-local authority houses. Councils and RSLs should be exempt from this levy (West Lothian Council).

**Scottish Government People and Communities Fund:** the fund supports a wide range of community regeneration initiatives, and is available both to housing associations and voluntary organisations. In 2016-17 the budget is £10.8m (previously the Wider Role fund just for housing associations was £12m). GSWF argued it is a useful source of funding and suggested that with the Scottish Government’s community empowerment agenda is gathering momentum, is a false economy to trim the size of the fund.

**Energy Efficiency:** the Existing Homes Alliance was disappointed the funding for energy efficiency programmes was cut by 15% in 2016/17. They welcomed the commitment made by the Scottish Government to spend £500m on energy efficiency this parliamentary session but they said this still fell short of what was required. They made a number of recommendations including that, as a transitional year, the 2017/18 budget should allocate around £190m for energy efficiency so that total public spending is increased to around £250m.

**Adaptations:** in some areas Stage 3 grants to RSLs for adaptation work are not working effectively. Some RSLs committed their full grant allocation from the Scottish Government for 2016/17. This may mean that adaptations for disabled persons assessed as required will not be undertaken by RSLs until 2017/18 (SLGP).

**Private Tenements:** it was suggested that local authorities should make greater use of their power to use new supply funding to support housing associations to acquire and improve private tenement flats which have fallen into poor condition (GWSF). Inverclyde Council also highlighted the problem of older private tenements in disrepair and suggested that government initiatives like buy back funding for former RSL properties and no interest or equity release loan products would be of assistance

**National Performance Framework:** it was argued that the Scottish Government's high level indicators in the National Performance Framework were too few and high level an opportunity to make a much more detailed and thorough alignment between housing spend and housing/societal outcomes. Professor Gibb argued this might be of interest to the Committee.

**Budget Scrutiny:** difficult because of the shortened timetable this year. Tracking the budget is not easy. Professor Gibb suggested ways in which the presentation of budget information could be improved for transparency issues. He also suggested there was a case for providing relevant but non-budgetary housing spend information i.e. tax breaks and benefit spend since they impact directly on the housing system.

**"Brexit":** possible issues arising from uncertainties around the UK's withdrawal from the EU, including financial uncertainty and fluctuations in the value of sterling are likely to have an effect on the cost of borrowing and importing materials for construction ([CIH Scotland](#)).