



# The **BIG** Picture

November 2011 Update:  
**Housing Trends and Government Policy.**



# Introduction

The political landscape in Scotland changed on 5<sup>th</sup> May 2011 as the Scottish National Party (SNP) recorded a historic win in the Scottish Parliament Elections and for the first time since the creation of the parliament in 1999, secured an overall majority. As a result, the re-elected Government find themselves in the fortunate position of having the clear mandate to deliver their policy programme as set out in their election manifesto.

This Briefing Paper from the Tenants Information Service (TIS) has been produced to provide an update on the Government's housing policy and the key housing issues facing tenants and landlords in a difficult funding climate. The challenge for all of us involved in the housing sector will be pushing housing up the priority list in a political landscape dominated by health, education, justice and renewable energy considerations.

This Briefing Paper has been compiled for TIS with the assistance of Jim Rooney CPFA of Financial Edge - independent finance advisors to the housing sector.

A Jargon Buster can be found at the back of this briefing paper to explain some of the terms used.

We hope you find this paper useful and for more information contact TIS at

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# Background to Current Housing Policy

## Financial Crash

The financial crash in 2008 and the introduction of a coalition Westminster Government in 2010 has led to unprecedented cuts in public services.

Many of these are being implemented or will be implemented over the next few years. The Scottish Government Budget has allowed the SNP Government to protect Scotland from the worst of these cuts but the fact remains that cuts will be made to public services in Scotland over the next four years, the length of the current parliament.

## Scottish Government Budget Cuts

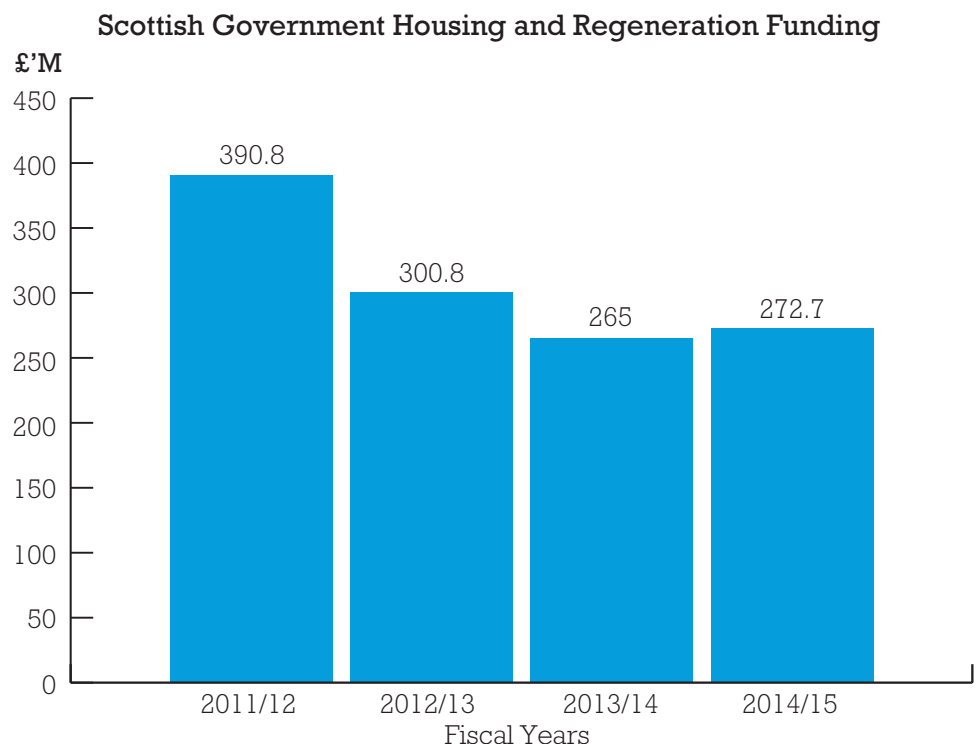
Over the period to 2014-15, the cut to the Scottish Government Budget is 11% in real terms (after allowing for inflation). In particular, the capital spending allocation will be cut by 36%! The capital spending programme is defined as major capital projects having a cost of £5 million or more.

In June, our Big Picture housing information note gave a detailed review of major developments in housing trends and government policy. This brief update note outlines housing developments since then.

## The Scottish Housing Budget

In September, the Scottish Government published its draft budget for 2012/13 and spending review showing plans until 2014/15. Unfortunately, housing was again a major loser indicating a planned reduction of 30% in the housing and regeneration budget in the period to 2014/15.

Housing sits within the Infrastructure and Capital Investment Portfolio and despite planned increases to this overall budget over the next 3 years, housing is still showing a major cut and indeed is one of the single biggest losers in the draft budget and spending review.



# Scottish Government Housing Policy

Current Scottish Government housing policy is outlined in the document "Homes Fit for the 21st Century," which was published earlier this year, before the May 2011 Scottish elections. It sets out the Government's strategy and action plan over the period 2011 to 2020. This follows on from their "Fresh Thinking, New Ideas," paper published in May 2010. Both these documents have been added to by further comment made in the SNP's election manifesto which has a specific section on future housing policy.

## Four major housing targets

Over the course of the next ten year period, the government intend to achieve four major housing related targets:

- » All social landlords must make sure their houses pass all elements of the Scottish Housing Quality Standard by 2015;
- » By December 2012, all unintentional homeless households will be entitled to settled accommodation;
- » By December 2020, improved energy efficiency in housing will have made a commitment to reduce energy consumption by 12% and greenhouse gas emissions by 42%; and
- » By November 2016, so far as reasonably practical, nobody will be living in fuel poverty in Scotland.

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## Housing Demand

### 20,000 new homes a year needed

The Scottish housing sector faces a record demand for new homes. Predictions of population growth estimate an extra 200,000 Scottish households by 2020, a demand that will require an extra 20,000 new homes a year to be built to accommodate this growth.

Not all of these homes will be required in social housing. These figures include the demand for owner occupation and the private rented sector. It also includes new emerging areas such as intermediate rent (Intermediate rent homes are those which are available at below market rent in an area but are above social housing rents. This is also called mid-market renting).

Nevertheless, with the country's social housing waiting list standing at 140,000 households, and 10,000 in temporary accommodation, some major hurdles need to be overcome.

### Options for meeting demand

Current housing policy (set to continue by the re-elected Government) is:

- » To invest in new build social housing, including council houses.
- » To find more innovative solutions to make sure the supply of housing is sufficient including schemes such as shared equity.
- » To free up those homes that are currently empty for rent and sale

- » To introduce new funding solutions to allow the capital investment required.

### Changes to the Right to Buy

In 2010, in order to help protect existing and new housing, changes were made to the Right to Buy (RTB) legislation. Thus ending RTB for most tenants new to the social housing sector (and returning after a break) as well as for most new supply social housing. The Government intends to build 6,100 new socially rented homes per year over the next 3 years with 5,000 council houses being built in the new parliamentary term (5 years).

### Move Away from Development of New Homes by Registered Social Landlords

Recent housing policy has tended to move away from the development of new homes provided by Registered Social Landlords (RSLs). For many years, this was the traditional method of providing new social housing with Housing Association Grant (HAG) paying roughly two thirds of the build costs of a new home. Grant levels have already fallen. In December 2009 it fell from £73,000 to £68,500 per unit. Then, in June 2010 it dropped to an average of £66,500 per home. Under "Homes Fit for the 21st Century", this amount is due to fall by 40 per cent to £40,000 per unit. These lower HAG levels will be introduced in conjunction with a new £50m competitive funding arrangement to allow all housing suppliers the chance to provide new affordable homes.

# Future Trends

## A mix of alternative strategies

The SNP 2011 manifesto aims to continue the direction of travel of the “Homes Fit for the 21st Century” document and we will continue to see the drive to maximise the building of new homes but using a mix of alternative strategies. There is a clear emphasis on innovation and the best use of public subsidy. Based on previous housing policy over the last four years and the intentions laid out in the “21<sup>st</sup> Century” document, as well as the manifesto, we will look at the likely trends we can expect over the course of the new parliament.

- » ***The building of new affordable homes for rent with particular emphasis on council house building.***  
A wide range of strategies will be used including shared equity schemes and councils buying homes from developers with the Government guaranteeing their stakes (through the National Housing Trust). The Trust's scheme allows homes to be let at 80 per cent of market rents with tenants given the option to buy after five to ten years.
- » One of these strategies is the ***Innovation and Investment Fund*** which has seen an initial Government investment of £50 million more than doubled to £111 million owing to the high quality of bids received. This fund allows suppliers to provide new affordable homes through a competitive funding arrangement. This investment is divided between:
  - » Council house building (social rent) - £35m;
  - » Housing Association building (primarily for social rent but can include other elements of affordable housing); - £64m and
  - » An innovative fund open to all providers (for all forms of affordable housing tenure) - £12m.
- » The Government will retain the flexibility to move money among the three streams. The objectives in managing the new £111m fund in this way are to promote: **Innovation, collaborative working, and value for money to the Scottish Government.** For housing associations this signals a move away from subsidy calculated at individual project level and will require them to contribute substantially increased resources from borrowing capacity across existing stock, reserves or cross-subsidising activities.
- » In addition to the new build targets, ***allowing councils to impose an empty property levy*** which will hope to raise extra funding of £30m per year to be used as additional housing investment primarily for new social housing (over the period 2012/13, 2013/14 and 2014/15).
- » It is clear funding levels will decrease over the next few years representing major cuts in budgets from years gone by. ***Expect new funding to be introduced*** either through changes to the Scotland Bill and renewed borrowing powers for Scotland to fund investment or through finding others to invest in social housing such as pension funds or the creation of a Scottish housing bond and a Housing Investment bank.
- » ***A commitment in the 2011 manifesto for a national strategy on housing for older people*** including ensuring that enough specialist housing and adapted housing is available for this group as well as disabled people.
- » ***Greater financial freedoms for Scotland*** may include having its own rules for housing benefit. This is driven by new Westminster rules on housing benefit, which are likely to have a significant negative impact in Scotland and have the potential to impact adversely on the 2012 homelessness commitment.
- » **Housing health checks** are likely to be introduced giving those in social rented accommodation the opportunity to establish the best housing option for them. This service will offer personalised advice on the housing options and opportunities available including help with securing relevant services or moving to more appropriate accommodation (although the final choice will always rest with the tenant).
- » ***A renewed focus on energy efficiency schemes*** in line with one of the “21<sup>st</sup> Century” paper's key strategies, especially allowing housing associations greater freedom to develop renewable heat schemes using up-front capital strategies based on future savings.

# Tenure Neutral Approach

A further key trend of the Government's housing policy is its "Tenure Neutral" approach. It considers that a stable housing policy requires all types of tenure to thrive to reflect differing priorities that people have.

The 21<sup>st</sup> Century document sets out the "Tenure Neutral" approach. This approach means that the Scottish Government will be seeking housing choices that are able to be maintained (sustainable) for all rather than encouraging one particular form of housing. By promoting housing with a mix, for example of social and private rented, shared equity and owner occupation housing within communities.

This appears to open the door to new housing provision under the guise of whatever works to satisfy housing demand (e.g. shared equity and intermediate renting).

## In Summary

So in summary, these trends outline the moves that are being made to address housing demand requirements which very much focus on innovation and investment in low cost housing initiatives. It is clear one of the key growth areas will be on schemes such as shared equity and intermediate renting to improve choice and social mobility.

The government considers social mobility as helping those trapped between social rented and owner-occupied housing (especially first time buyers) and ultimately help them on to the property ladder rather than relying on social housing provision.

# Key Issues for the Social Rented Sector

## New supply affordable homes

Clearly the 21<sup>st</sup> Century housing paper and the 2011 manifesto pledges for housing raise some important issues for the social rented sector.

While the building of 6,100 new socially-rented houses each year over the next three years is to be thoroughly welcomed (including a pledge for 5,000 council houses to be built over the parliamentary term), there does appear to be a move away from traditional social rented housing towards shared equity and other market rent type schemes.

The Government considers that this targets those who are trapped between social housing and owner-occupation. Moreover, Registered Social Landlords are coming under increasing pressure to deliver new build at HAG rates as low as 25% while competing for funds with others as part of the new Innovation and Investment fund. This means RSLs are increasingly going to have to use their own resources or secure additional borrowings if they want to continue to build new homes for rent.

## Housing Debate in Scottish Parliament on 6 Oct 2011

A comprehensive debate took place with Housing the main agenda item for discussion. A major talking point and one that attracted considerable press attention was the clarification by the SNP Government that their aim was to build 30,000 "affordable" homes over the next 5 years with two thirds (or 20,000) being for social rent (housing association and council housing) and the remainder (10,000) supplied through alternative tenure methods such as mid-market rents and the National Housing Trust. Their manifesto earlier in the year promised 6,000 "socially rented" homes each year (30,000 over 5 years). This revised focus naturally was the main point of discussion as housing for social rent and housing for affordable rent is not the same thing.

The confusion led to concerns over the deliverability of the 30,000 target especially when housing association grant levels will fall to an average £40,000 per house and when such a major cut is being made in the housing and regeneration budget over the next 3 years. All the political parties agree housing should be a top priority although the budget figures show it is reducing in priority in strict funding terms.

Clearly these budget cuts are concerning and all of us involved in the housing sector need to continue to work as hard as we can to ensure housing remains a major priority and that the Government remains on track to supply 30,000 homes for affordable rent over the next 5 years at the rate of 6,000 homes per year.

## Reaching the Scottish Housing Quality Standard and rent levels

While it is entirely sensible to focus on closing the demand gap that will exist in the future, there is a concern about the detailed strategies for existing tenants especially those who will remain in social housing without the possibility of moving to alternative tenure types such as shared equity.

# Key Issues for the Social Rented Sector (continued)

For those tenants, the commitment for all landlords to achieve the SHQS standards by 2015 must be enforced by the Government to make sure existing tenants do not lose out as part of the ongoing housing strategy.

The stock transfer policy of the past has largely disappeared so existing tenants, more than ever, must make sure that repairs and maintenance standards are maintained along with improvement programmes that offer standards above SHQS requirements without punitive increases in rent levels.

Additionally, overall rent levels that are used towards the funding for new council housing stock should not be at the expense of the needs and wants of existing tenants.

## Housing Benefit Changes

The housing benefit changes introduced by the Westminster Government are likely to have a negative effect especially on those households where there is "under-occupying" although the changes are restricted to those of working age only.

Younger single people and those who are long-term unemployed will also be adversely affected. TIS has an Information Note on the proposed changes to Housing Benefit which is available on request or from our website.

## The Scottish Social Housing Charter

The Scottish Social Housing Charter is currently being developed by the Scottish Government and when finalised in April 2012 will set out the outcomes and standards that all social landlords (councils and Registered Social Landlords) should achieve for tenants, homeless people and others who use their services. The Charter will be used by the Scottish Housing Regulator to assess how far social landlords are achieving the Charter outcomes. A number of the Charter outcomes will relate to issues raised in this Briefing Paper such as Housing Quality, Rents and Value for Money. In developing a national Housing Charter it is essential that tenants and their representatives continue to be fully involved working with landlords, Scottish Government and key stakeholders in this process. It is also important that landlords and tenants work together to set local standards and develop ways to review performance. A commitment to resources, support and training is essential for tenants to fully participate in the development of the first Housing Charter for Scotland and to be fully involved in the self assessment process.

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## The Outlook for Tenants

### New Housing...falls short of demand

For those tenants seeking new accommodation or hoping to be housed in brand new social housing accommodation strategies are in place to provide a stream of new housing at least over the course of the next four years. While such strategies are welcomed, they fall short of the requirements needed to meet ongoing demand.

### Housing Standards and Rents

Existing tenants will need to make sure that their landlords are doing everything they can to deliver SHQS standards as a minimum by 2015 along with further improvements being made as part of the capital programme in addition to any new build targets.

Existing stock should not be neglected at the expense of new build and tenants must continue to use their voice when council and other social housing providers are drawing up their plans. While the 21st Century document offers support in the direction of regeneration and seeking improvements in existing housing through a more efficient delivery model for SHQS standards and improved energy efficiency, the main thrust of the document concerns new housing supply and tenure diversification.

As well as keeping existing properties to a good maintenance standard, tenants need to be alert in making sure their rents are still affordable and their housing management service of good quality.

# Conclusion

The next few years represent challenging times for the whole country no more so than in the housing sector. Previous levels of funding are expected to decrease quite markedly over the period of the new Scottish Parliament. The re-elected Government's housing strategies place great emphasis on new build social housing not just using traditional forms of delivery as in the past. Their approach will be on bringing innovative funding solutions to replace traditional grant funding mechanisms and this will put particular pressure on registered social landlords as they try to maintain their historic role as a provider of new build social housing.

Existing social housing tenants need to make sure they continue to maintain a high profile so that SHQS deadlines are met and repairs and maintenance standards as well as improvement programmes are maintained.

Finally, the Briefing Paper shows that the demand for social housing well outstrips supply. The Housing Budget has already had a significant cut in 2010. It is vital therefore that tenants and their representatives, working with their landlords and the Scottish Government, make sure that housing does not suffer in any future budgets cuts.

# Jargon Buster

<b>Carbon Emissions</b>	The carbon released into the atmosphere when fuel like coal, oil and gas is burned. It is carbon compounds, which are believed to be the main cause of global warming.
<b>Empty Property Levy</b>	Councils will be allowed to charge additional council tax on long-term empty homes. The additional income generated will be redirected towards financing new, affordable housing.
<b>Housing Association Grant (HAG)</b>	The grant housing associations get to help with around two thirds of the cost of building new houses. The housing associations borrow the remaining third and cover the resulting loan charges from the rent collected.
<b>Intermediate rents (also called Mid Market renting)</b>	Housing where the rents are higher than social housing but lower than private sector market rents. Market rents in the private sector exist where private landlords get no subsidy from Government. Social housing benefits, or has benefited in the past, from a high level of subsidy from Government. Mid-market rented housing would be supplied with a lower level subsidy from Government than social housing.
<b>National Housing Trust</b>	An initiative developed by the Scottish Government in conjunction with other partners, allowing councils to make more new affordable homes available for below market rent in areas where there is not enough affordable housing to meet current demand.
<b>New Right to Buy Legislation</b>	Contained in the Housing (Scotland) Act 2010. Key changes include: » No right to buy for "New Supply Housing" » No right to buy for new tenants (or those returning to social housing)
<b>Scottish Housing Quality Standard</b>	The minimum standard defined by the Government in Scotland following the Housing (Scotland) Act 2001 which requires all councils and housing association houses to meet by the year 2015. The standard concerns health and safety, state of maintenance, and level of amenities.
<b>Shared Equity</b>	This is a form of home ownership where a purchaser – mainly a first time buyer - will buy a proportion of the full value of a property and a housing association or private developer will own the remainder.
<b>Registered Social Landlord</b>	The collective word used to describe housing associations, housing cooperatives and housing partnerships
<b>Unintentional homeless households</b>	Based on homelessness legislation, a council has to verify the reasons for becoming homeless were beyond the household's control. While carrying out their investigations the council has to provide temporary accommodation for the person/family.



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