

## Stacking up Housing Supply The Scottish Government's Delivering Plans and the Credit Crunch



July 2008

## **The Chartered Institute of Housing**

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

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## Introduction

In May 2008 the Scottish Government released more details of its affordable housing investment programme. In June it set out its wider housing plans following the consideration of its [Firm Foundations](#) discussion paper, issued on October 2007. However, the deepening credit crunch raises a number of issues for short to medium delivery plans.

This briefing outlines the main content of the announcements. It looks at the level of affordable housing funding and the building programme that has been announced, and how this compares with previous years. It also looks at the distribution of the funding by local authority area. It outlines what the Scottish Government has announced in response to *Firm Foundations* and the tightening economic situation. Finally the briefing picks up on number the issues arising from the credit crunch that may impact on delivery, with the CIH asking for some views and ideas.

## Affordable Housing Investment Announcement for Scotland

### ***The Affordable Housing Investment Programme - Funding***

The Scottish Budget published in November 2007 set out the Scottish Government's proposed spending for the period 2008/09-2010/11. The budget was approved by the Scottish Parliament in February 2008. It set out an Affordable Housing Investment Programme of nearly £1.3bn over the three years (not including the ring fenced money allocated to Glasgow and Edinburgh – where the management of development funding has been transferred to the local authority). A detailed review of the Scottish Budget was prepared by the CIH<sup>1</sup>.

On 30 May 2008 the Scottish Government set out more details on its affordable housing investment plans for Scotland<sup>2</sup>. It announced that over the three year period £1.5bn will be invested across Scotland and included the sum to go to Edinburgh and Glasgow. With the figures for Edinburgh and Glasgow included, nearly £800m more can be added on to the figure announced in November. Table 1 sets out the breakdown of proposed spending up to 2010/11.

Table 1 – Scottish Government's Affordable Housing Investment Programme (AHIP)

	2008/09	2009/10	2010/11	Total
AHIP announced Nov 2007	£373.9m	£446.7m	£472.1m	£1.29bn
Revised figure to include Edinburgh and Glasgow (May 2008)	£493.0m	£503.5 <sup>1</sup> m	£503.5 <sup>1</sup> m	£1.5bn

<sup>1</sup> Only the exact funding for 2008/09 announced. The figures for 2009/10 and 2010/11 are the average of remaining funding. The split of this funding will not be announced until 2009.

In 2007/08 the AHIP budget was £584m. Therefore funding for 2008/09 is a significant decrease on the previous year. Not does funding for the following two years look set to match up to the 2007/08 figure.

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<sup>1</sup> Scottish Budget Spending Review 2007- A briefing from the CIH in Scotland on the housing and housing related elements of the budget, December 2007, available at [www.cih.org/scotland/policy/ScottishBudgetSpendingReview-CIH\\_Briefing.pdf](http://www.cih.org/scotland/policy/ScottishBudgetSpendingReview-CIH_Briefing.pdf)

<sup>2</sup> See Scottish Government News Release, *Investment in housing*, [www.scotland.gov.uk/News/Releases/2008/05/30104227](http://www.scotland.gov.uk/News/Releases/2008/05/30104227)

The Scottish Government has made clear on several occasions, most notably in *Firm Foundations*, that it is intent on getting better value for Housing Association Grant (HAG) with a view to delivering more affordable houses for a lower public subsidy.

### ***The Affordable Housing Investment Programme – Affordable Homes***

The Scottish Government has confirmed that its aim is to help fund the delivery of at least 21,500 affordable homes over the next three years (2008/09-2010/11). This is the same as the target of the previous Scottish Executive for 2005/06-2007/08. However, the Scottish Government sees this as a minimum figure. “*The number of units over 21,500 this [the funding announced] will secure will depend on how successfully housing associations work with the Government to secure more value for investment.*”<sup>3</sup>

The breakdown for the minimum of 21,500 over 2008/09-2010/11 is set out in Table 2, alongside the previous Scottish Executive’s ambitions for 2005/06-2007/08.

Table 2 Planned affordable housing delivery comparison

Year	Previous Scottish Executive			Scottish Government		
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Number of homes	6,400	7,100	8,000	6,000	7,100	8,400
Total			21,500			21,500

The proposed output for 2008/09 is 25% down on the planned output in 2007/08. By 2010/11 it will have risen to above the 2007/08 level, by 400 homes.

The affordable homes target does not differentiate between affordable rented homes and low cost home ownership homes.

### ***HAG Funding 2008/09 and beyond***

At the same time the Scottish Government has announced its intention to push ahead with its plans for tightening up the HAG funding regime for 2008/09, with immediate effect.

This decision follows the consultation issued in February 2008 *Better Value from Housing Association Grant: Changes to Grant from 2008/09*<sup>4</sup> which outlined the planned changes. It covered the Scottish Government’s review of the current HAG allowances and assumptions. It concluded that some of the assumptions used can be adjusted because, in its view, they are leading to an overprovision of subsidy. The responses to the consultation have been analysed by the Scottish Government<sup>5</sup>. It found that ‘*outright support for the individual proposals was low*’.

In deciding to implement its proposals the Scottish Government has issued guidance on the new funding regime for 2008/09<sup>6</sup>.

<sup>3</sup> Answer by Stewart Maxwell, Minister for Communities and Sport to written parliamentary question on 30 May 2008 (S3W-13606).

<sup>4</sup> Available at [www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/cs\\_008516.hcsp#TopOfPage](http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/cs_008516.hcsp#TopOfPage)

<sup>5</sup> Analysis available at <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/bettervalue/hagconsultationpaper>. See also CIH Scotland response <http://www.cih.org/scotland/policy/HAG.pdf>

<sup>6</sup> Available at <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/guidancenotes/hign200805>

In looking at grant funding after April 2009 the Scottish Government is setting up a short-term working group to assist it to '*streamline the management and operation of the existing Housing Association Grant system*'<sup>7</sup>. The analysis of responses to the HAG consultation for 2008/09 added that a '*further consultation about a more strategic and competitive approach to allocating subsidy for affordable homes will be published later this year*'. This will look at taking forward the proposals in *Firm Foundations*.

### **AHIP funding across Scotland**

How the 2008/09 AHIP funding will be allocated across Scotland has now been set out. This was included in the answer to the written parliamentary question. The allocation is shown in Table 3 alongside how the funding was allocated in 2007/08. It also shows the percentage change to the funding from the 2007/08 allocation.

Table 3 – Affordable Housing Investment Programme allocation by local authority area

Development Programme	Allocation £m		% change
	2007/08	2008/09 provisional	
<b>Highlands &amp; Islands</b>			
Highland	36.325	27.120	-25.3
Orkney	6.000	5.033	-16.1
Shetland	3.800	2.640	-30.5
Western Isles (Comhairle nan Eilean Siar)	6.500	4.130	-36.5
<b>Total</b>	<b>52.625</b>	<b>38.923</b>	<b>-31.3</b>
<b>Grampian</b>			
Aberdeenshire	16.508	19.637	18.9
City of Aberdeen	6.767	3.922	-42.0
Moray	9.525	6.372	-33.1
<b>Total</b>	<b>32.800</b>	<b>29.931</b>	<b>-8.7</b>
<b>Tayside &amp; Forth Valley</b>			
Angus	5.714	3.890	-31.9
City of Dundee	12.250	7.766	-36.6
Perth & Kinross	15.270	10.886	-28.7
Clackmannanshire	3.500	2.150	-38.5
Falkirk	7.366	3.866	-47.5
Stirling	10.724	3.476	-67.5
<b>Total</b>	<b>54.824</b>	<b>32.034</b>	<b>-41.5</b>
<b>Lothian, Borders &amp; Fife (excl City of Edinburgh)</b>			
East Lothian	5.600	4.400	-21.4
Fife	21.545	13.133	-39.0
Midlothian	4.580	3.400	-25.7
The Scottish Borders	7.200	5.600	-22.2
West Lothian	10.220	6.600	-35.4
<b>Total</b>	<b>49.145</b>	<b>33.133</b>	<b>-32.6</b>
City of Edinburgh	36.100	36.100	0.0

<sup>7</sup> From Scottish Government news release 30 May 2008

<b>South &amp; West Scotland</b>			
Dumfries & Galloway	12.767	9.700	-24.0
East Ayrshire	11.533	7.000	-39.3
North Ayrshire	10.281	6.640	-35.4
North Lanarkshire	23.961	14.600	-39.0
South Ayrshire	6.674	6.300	-5.6
South Lanarkshire	19.284	15.300	-20.6
<b>Total</b>	<b>84.500</b>	<b>59.540</b>	<b>-29.5</b>
<b>Argyll &amp; Clyde (excl Glasgow)</b>			
Argyll & Bute	17.675	14.757	-16.5
West Dunbartonshire	10.350	7.835	-24.2
East Dunbartonshire	5.800	5.386	-7.1
Inverclyde	23.565	19.280	-18.1
Renfrewshire	17.096	12.510	-26.8
East Renfrewshire	4.775	3.271	-31.2
<b>Total</b>	<b>79.261</b>	<b>63.039</b>	<b>-20.4</b>
Glasgow	83.000	83.000	0.0
<b>Others</b>			
GHA	68.400	79.300	15.9
Shared Equity Open Market	30.000	24.000	-20.0
Other Programmes (inc Mortgage to Rent, NHP debt servicing)	13.836	14.000	1.2
<b>Total</b>	<b>112.236</b>	<b>117.300</b>	<b>4.2</b>
<b>Overall Total</b>	<b>584.491</b>	<b>493.000</b>	<b>-15.6</b>

It is quite clear that a number of local authority areas in Scotland are experiencing significant cuts in their affordable housing allocation; with only Aberdeenshire receiving an increase in funding. Overall the budget for 2008/09 is 15% lower than that allocated in 2007/08. In order to deliver the planned 6,000 plus homes, local authorities and RSLs will need to work hard to make resources stretch further as will their lending and building partners. That may be increasingly difficult in the current economic climate with banks and building societies restricting lending. However, opportunities may exist with private developers looking at alternative ways to use their land banks and building resources in response to the downturn in the owner occupied market.

### **Taking forward Firm Foundations**

In a [statement](#)<sup>8</sup> to the Scottish Parliament on 25 June 2008 Nicola Sturgeon MSP, Cabinet Secretary for Health and Wellbeing set out the Scottish Government's position.

### **Housing supply**

Nicola Sturgeon reiterated the commitment to lift house building from a current level of about 24,000 per year to 35,000 per year by the middle of the next decade. The Government feels that this is still achievable, despite the current 'credit crunch', as the ambition is not to achieve this figure in the shorter term. What she did not do,

<sup>8</sup> The Full text is available on the Scottish Parliament website <http://www.scottish.parliament.uk/business/officialReports/meetingsParliament/or-08/sor0625-02.htm#Col10088>

other than to say she will put pressure on the UK Government, was to set out any proposals to address house building issues in the short to medium term, given the changing economic climate.

### ***Assistance to Home Owners and First Time Buyers***

In recognition of the current economic climate the Scottish Government announced new measures for people having difficulties with their mortgage payments. This includes launching a *home owners support fund* to help people remain in their homes when they cannot get help elsewhere. This will include and build on the existing Mortgage to Rent Scheme and will be resourced initially by an additional £25m. In remodelling it the Government will work with the housing sector to look at introducing shared equity and shared ownership options into rescue packages. It also wants to remodel the shared equity LiFT programme to give first time buyers struggling to keep up their mortgage payments the option to adjust the stake that they hold. This will be backed up by an investment of £250m over the next three years.

### ***Remodelling affordable housing delivery***

Nicola Sturgeon re-emphasised the position laid out in *Firm Foundations* that it is “*imperative to make our investment in new social housing more efficient.*” Following the announcement on how HAG funding for 2008/09 will work, she said the next step is to look at reforming the investment processes to deliver a more strategic and competitive approach by exploring a range of options. This will be done in partnership with stakeholders, and a team in the Scottish Government is already working on what is being called the *Housing Investment Reform Project*.

### **Emerging Issues from the ‘Credit Crunch’**

As the impacts of the ‘credit crunch’ begin to take shape concerns are emerging that housing supply may become constrained in the short to mid-term. In the private building sector the effects are already being seen with a number of major builders shedding staff across the UK (including Persimmon, Barrats, Taylor Wimpey, Tulloch, Bovis and Redrow – shedding over 4,000 jobs between them). Homes for Scotland have also warned building output may be down between 10-20% this year.

At the same time lenders are facing financial challenges which are leading to less lending to RSLs and, where lending does occur, less generous interest rates for RSLs. 5 of the 7 main lenders have withdrawn from the market and housing associations are being devalued as safe lending bets. Combined with the tightening HAG funding from the Scottish Government this poses both short and medium term challenges in upping the delivery of affordable rented housing.

There is also a raft of evidence that mortgages are becoming more difficult to get – especially for first-time buyers – or more expensive for people re-mortgaging or moving house. This has led to a slow down in the housing market with some evidence of house price falls, even in Scotland which has traditionally been more sheltered from house price declines. This has led to private developers slowing or halting building plans and an increasing stagnation the housing market.

There is growing evidence, mainly from England at this stage, that the use of ‘planning gain’ such as section 75 agreements and affordable housing quotas, are beginning to deliver significantly less affordable housing as private developers either stop building or seek to re-negotiate agreements as their profit margins are squeezed.



This all raises the question of what can be done in the short to medium term to address people's housing needs.

The CIH has commissioned work on the housing implications of the credit crunch, which is due for completion in October. This work will in part look at impacts on the Scottish Government's objectives in *Firm Foundations* and consider the longer term implications for the housing sector including first-time buyers and RSLs seeking private finance for development.

We are also in discussions with the Scottish Government with a view to holding a seminar in September to consider the Scottish Government's work on the *Housing Investment Reform Project*.

In addition the CIH is keen to look at what opportunities there may be to help deliver options for people in housing need or struggling to buy, and how this may in turn assist the building industry.

The CIH is keen to gather the views CIH members and others on this. Some areas we are looking at include:

- Can RSLs and local authorities gain access to or take ownership of properties built by private developers that are not selling on the open market or are being withdrawn from the market and are being left empty? Can or should these be used for social rented, mid-market rent and market rent to meet a range of current housing needs, from people on housing lists through to people unable to afford or obtain a mortgage? Are there any rules and regulation changes needed to enable this? How can or should it be financed and how can it be made attractive
- As developers slow down or even stop their development programmes how can social housing providers or enablers be encouraged to buy surplus land that they may be banking? Can they take over and complete partly developed sites?
- Is there any evidence in Scotland that less affordable housing is beginning to be delivered via planning gain? What more can be to assist the planning system in delivering more housing to meet needs?
- How willing may developers be to work more closely with RSLs and local authorities to build new homes at lower costs? Will this help them remain in the market, protect their share prices and prevent them having to sanction job losses?
- Is there a case for developing the Scottish Government's proposals for more flexibility on the mortgage to rent scheme and LiFT programme by looking at a much wider *flexible tenure* scheme that would give people the ability to move between renting and owning without changing home?
- The Scottish Government has introduced some welcome measures to help people in mortgage difficulties. Is there more it could be doing to assist people looking to access home ownership and in doing so provide some solace to the building industry? Is it time to extend the open market part of the LiFT programme across the whole of Scotland?
- What consideration should now be given to a wider range of measures to lever in finance for the delivery of affordable housing? This could include the how the use of the £25m for local authorities is targeted, making best use of local authority prudential borrowing powers, Public Private



Partnerships (PPPs) or elements of the Scottish Futures Trust and accessing the bonds market.

Opinions and ideas or examples of current practice around these and other areas would be useful in taking the debate forward. Also we would like to know if you are seeing any impacts from the perspective of your organisation or those you work with? Please either email [nick.fletcher@cih.org](mailto:nick.fletcher@cih.org) or phone Nick on 0131 225 4544.