Delivering affordable housing in troubled times

Scotland national report

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An assessment of alternative ways to fund new affordable housing in Scotland at a time when public resources for housing are being significantly reduced.

Falling levels of public funding arising from the global economic crisis has obliged the Scottish Government to seek innovative alternative ways to stretch their limited resources further. This report surveys the different funding and delivery models being debated in Scotland. These may question traditional notions of public or social housing by encouraging wider participation by the private sector.

The report:

- assesses the impact of the world financial crisis on UK and Scottish housing, including the housing policy responses that followed;
- reflects on the way housing need is calculated and how rationed public housing resources are allocated within Scotland;
- evaluates the funding and delivery options proposed and debated by Government alongside a wider set of proposals.

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In a devolved UK, finding ways to fund an expansion of affordable housing in an era of sharply reduced public resources forces devolved governments to seek out creative solutions. This report examines the issues of housing need in Scotland and assesses some of the key proposals that have been outlined as part of new policy thinking on solutions to deliver affordable housing.

Study context

In 2007, the new Scottish National Party minority Scottish Government pledged to expand the long-term supply of housing and to support more affordable housing in various ways, such as an expansion of council house building. Scottish housing has had to confront four sets of reverses since 2007: the credit crunch, housing market downturn, recession and now unprecedented fiscal retrenchment. This is happening at a time of rising housing need while the Scottish Government is facing short- and long-term challenges that require more, not fewer, housing resources. A critical dimension is the tension between devolved housing policy and reserved Treasury accounting rules and Department for Work and Pensions benefits (particularly Housing Benefit). The draft Scottish budget implies a greater than 20 per cent real terms cut in the housing budget for 2011–12 (Scottish Government, 2010a).

In their 2010 housing policy discussion document, *Fresh Thinking, New Ideas*, (referred to here as the discussion paper) the Scottish Government (2010b) argues that in this new environment, housing need and the allocation of funds for affordable housing may have to be reprioritised. It also sets out a long list of possible ways to expand affordable supply. It is these two issues that are the focus of this report.

Housing need and resource allocation

While the Scottish Government argues that it is for local authorities to measure need through local housing needs assessments, they nonetheless argue that debate is required over the appropriate way to prioritise different forms of need. There are two issues here that may be either combined or treated separately. Each local authority could measure needs on a consistent basis and use the results to inform how it allocates the funds it has at its disposal for affordable housing. At the same time, the mechanism by which resources are allocated to local authorities by government for affordable housing may or may not use a resource allocation mechanism which mirrors in part or wholly the spatial distribution of housing need identified locally.

Over time, and certainly in the last few years, the actual resource allocation mechanism used in Scotland has become much more opaque. The mechanism is not in the public domain but discussions with civil servants suggest that the allocation is currently informed by:

- previous allocations to local authority areas;
- the distribution of housing need (based on Glen Bramley's national housing needs model) (Bramley *et al.*, 2006);
- the distribution of multiple deprivation (based on the Scottish Index of Multiple Deprivation);

- top-slicing (that is, taking some of the existing budget away and re-allocating it for specific ends) to address special factors such as rural initiatives;
- large-scale policy commitments such as the Glasgow stock transfer.

The resource allocation debate was brought into sharp focus when the government's presentation of *Fresh Thinking, New Ideas* set out three different maps of housing need measured by different criteria (regeneration, homelessness and affordability), which suggest different geographies of need and therefore spending distribution. Each of the three suggest a quite different spatial allocation of resources, for instance, a focus on regeneration favours the West and Clydeside, whereas a focus on affordability would redirect resources to the East and some rural areas of Scotland.

Our conclusion is that it does not pay to promote new, partial systems of allocating funds which prioritise specific needs that are either fashionable, favour certain constituencies or otherwise undermine the need for well-understood defensible resource allocation mechanisms. That the government is working with the local authority sector to develop a new needs approach is much more promising than to countenance either the opaque practice of recent years or redirecting national spending on the basis of one or other dimension of what is a much wider problem. One can distinguish between developing comprehensive local housing needs assessments and how a given level of resource is used to meet the resulting unmet need, as opposed to adopting a different conception of need in order to prioritise the spatial allocation of funding. However, it would be preferable if both approaches were based on the same broader, comprehensive and well-understood model of housing needs.

Conclusions

This report highlights two key areas of concern.

First, this report instead argues for a reasoned multi-dimensional model of need to allocate resources sub-nationally, perhaps directly linked to the bottom-up aggregation of new local needs assessment currently being developed with CHMA in the Scottish Government.

Second, the report considers the options for financing new affordable housing supply.

- There are several proposals from the Scottish Government that are worth more detailed investigation: law reform to reduce barriers to investment, promoting the niche use of co-operative and community land trust ideas, as well as discussing viable mechanisms to allow 'free equity' in the housing association sector to be either refinanced or in part used to kick start loan guarantees from a housing bank.
- Many of the proposals suggested above are fundamentally reliant on the state of the market or about accessing new sources of long term funds like the pension funds, which brings risk as well as finance.
- The pragmatic search for new models is sensible and there is evidence locally of innovation that work. However, many of the proposals are vulnerable to the market and wider drivers such as changes to the HB system.
- There are also several other ideas worthy of further consideration (for instance, developing ideas for funding through private equity, allowing associations to recycle capital receipts from voluntary sales, loan guarantees, and the successful Highland land bank fund).
- It is essential that the interactions between affordable housing development, housing benefit reform and private finance are properly understood by those reforming the benefits system in order to avoid negative impacts from any reform on policy objectives to meet affordable housing need.

1 Introduction

Scotland received devolved powers for governance of key policies in 1999 and housing policy has prominently featured in subsequent Scottish legislation ever since (Wilcox *et al*., 2010). Landmarks include the Housing (Scotland) Act 2001, the Homelessness, etc. (Scotland) Act 2003 and the current Housing Bill. Moreover, certain aspects surrounding the assumptions underlying the objectives and the mechanisms that deliver housing policy remain different from the UK position (and indeed were so before 1999 – for instance, grant assumptions for housing associations developing new housing were more generous and local authorities enjoyed more discretion over rents and spending on council housing than was the case in England). Scotland has also emulated (often with a lag) English policies – for instance Section 75 planning agreements are the recent Scottish version of Section 106 agreements in England, and are used to deliver affordable housing alongside new private developments.

At the same time, certain reserved matters continue to exert a strong influence on Scottish housing: the national tax and benefits system, mortgage regulation, the Treasury rules on public financial accounting and the overall public expenditure system context that shapes the Scottish Parliament's annual financial settlement. Public funding for housing is part of Scotland's block grant and the Housing Minister has to compete directly with health, education, care, transport, etc. for shares of the cake.

A long period of economic growth in the UK and Scotland was mirrored by increasing public spending and assumptions about longer-term public funding commitments in the benign economic climate that existed largely uninterrupted from 1999 to 2007. The apogee of this in housing policy terms was the Scottish Government's housing policy discussion document *Firm Foundations* launched in the autumn of 2007, just as the first phase of the credit crunch was being felt across the financial system. The policy document called for:

- A programme of new interventions to expand home ownership through grants to would-be first-time buyers, as well as more shared equity products.
- A proposal to create a system of region-wide developer consortia as part of a concerted effort to reduce the cost of social housing development.
- A commitment to high standards in new energy efficient homes (likely to substantially increase costs in the social sector).
- The desire to address affordability and market volatility by following the Barker Review and seeking a permanent increase in total housing supply from around 20,000–25,000 units per annum to around 35,000 units by around 2015. This was also a response to Shelter, the Chartered Institute of Housing and the Scottish Federation of Housing Associations, whose research on housing needs suggested an unmet need of 10,000 affordable units a year. New affordable supply would be facilitated by more responsive planning, by greater use of S75 planning agreements and by subsidising council house building (by £25,000–30,000 per unit) – aided by abolishing the Right to Buy on new build housing.

Parts of *Firm Foundations* did not advance (e.g. the plan for first-time buyer subsidy). The council house building programme was undoubtedly successful, but in so far as other policies relied on increasing asset values or the continuation of lending terms and conditions that applied before 2007, the policy programme has been struck by quadruple reverses. The credit crunch led to a housing and land market downturn, to be followed by general economic recession and a burgeoning structural deficit. In turn this has led to a fourth phase involving patchy economic recovery, little private lending and fiscal retrenchment.

The Scottish Government continues to see housing policy in large part in terms of expanding the supply of affordable housing. To do this it is seeking to develop new financial policies that will make private finance go further, widen the forms of subsidy available and push further the definition of what the Treasury sees as acceptable public accounting. In its most recent policy discussion paper *Fresh Thinking, New Ideas*, the Scottish Government (2010b) identifies the range of shorter- and long-term housing needs, as well as underlying investment commitments that the sector confronts (i.e. homelessness, housing quality, fuel poverty and climate change targets), and that new ways to fund affordable housing are urgently required.

This report is concerned with these fundamental issues: the consequences of the economic and financial crisis, thinking afresh about measuring and prioritising housing need, and establishing the merits or otherwise of different proposals to expand affordable housing supply. Chapter 2 reviews the responses to the economic and financial crisis, as it applies to Scottish housing. The third chapter examines current approaches to housing need and the allocation of affordable housing resources at sub-national levels. Chapter 4 reviews existing and potential proposals to expand affordable housing in Scotland. Finally, Chapter 5 draws out key messages on how housing need and affordability should be addressed as policy develops in this area.

2 The credit crunch and Scottish affordable housing

The traumatic unwinding of the credit crunch and its aftermath has been fully told in several places (e.g. Adair *et al*., 2009; Cassidy, 2009; Gamble, 2009; O'Sullivan and Gibb, 2008; Shiller, 2008). Here we focus on the UK and Scottish Government responses. The chapter also looks at the medium-term public finance impacts in a devolved context and what this means for affordable housing.

UK Government responses

In response to the credit crunch, the UK Government took major stakes in the Royal Bank of Scotland, Halifax Bank of Scotland and Northern Rock to avert collapse of the banking system. It also supported quantitative easing, low interest rates, wider intervention to support the banking sector, VAT cuts, extending loan guarantees for business, the temporary reintroduction of Income Support for mortgage interest and other policies aimed to reduce the growth in housing repossessions (O'Sullivan and Gibb, 2008). The UK Government also arranged with many high street lenders to guarantee or underwrite any losses incurred if repossession was still required after two years' breathing space for owners in arrears.

The UK headed to a general election in 2010 confronted with an alarming and unprecedented long-term structural deficit (enlarged by the impacts of these interventions). The economic policy dividing line was between those who wanted to address the fiscal imbalance more quickly and those who wanted to take a more measured approach. The new Coalition Government's dominant narrative became that the ongoing financial crises associated with sovereign debt in countries like Greece (a latest phase of the crisis that goes back to the credit crunch) made it essential to be seen to tackle the deficit quickly.

The Coalition Government announced immediate public spending cuts of £6 billion and then in their first budget emphasised spending cuts (77 per cent) over tax increases (23 per cent). The comprehensive spending review published on 20 October 2010 is looking for average government departmental cuts of around 19 per cent over four years. This will amount to reducing spending by more than £80 billion by the end of the Parliament. This is quite unprecedented. At the same time, the Department for Work and Pensions is bringing forward proposals for significant benefits restructuring that will go beyond the cuts already announced to Housing Benefit (HB)[1] (i.e. eventually subsuming it and other working-age income-related benefits within a new Universal Credit).

Not surprisingly in such a context, the UK housing sector has gone through a deeply troubled period since 2007. House prices fell by more than 10 per cent from the cyclical peak in prices, but while many parts of the UK have now stabilised or resumed real growth, the picture remains patchy.[2] The Centre for Housing Market Analysis (CHMA) in the Scottish Government, using Department of Communities and Local Government data, suggest that UK house prices fell around 20 per cent from their cyclical peak before recovering somewhat (Scotland's prices fell 12 per cent from their peak) (CHMA, 2010a). Scottish house prices peaked later in June 2008, nearly a year after the UK. However, the volume of activity is much contracted in the lending, resale and new homes markets, with particular falls in 2008 followed by uneven, slow recovery. The growth of buy-to-let renting has also dried up and social housing has not only faced cuts in public funds but also fundamental problems with its development model (a model reliant on private lending, a functioning land market, recycling revenues from sales, opportunities to share in planning gain and partnership in urban regeneration programmes).

Defaults on mortgages have increased but not by as much as was expected (so far) – thanks to policy, but also to self-interested lender restraint from mortgage providers. CHMA (2010a) report that large value arrears have been falling and the Council of Mortgage Lenders expect repossessions to be 39,000 in 2010 (down from 47,700 in 2009 and well below earlier projections of 53,000). The changed shape of the mortgage market has resulted in radically increased average deposits for first-time buyers, the down payments required from buy-to-let investors and has affected the terms and conditions facing social housing developers. This lack of affordable mortgage finance remains a major block on all parts of the housing system. It is perfectly possible, however, that arrears and possessions may yet take an upward turn as unemployment rises and earlier interventions come to an end. Regrettably, and with the exception of HB, the UK Government has not seen the crisis and the downturn as an opportunity to make structural reforms aimed at reducing future housing market volatility (O'Sullivan and Gibb, 2008; Ball, 2010).

Scotland

The Scottish economy was not immune to the economic reversal. In addition to its clearing banks' difficulties and part-nationalisation, it also lost a building society when the Dunfermline Building Society got into trouble and was taken over by Nationwide Building Society. The housing sector in Scotland was hit hard. The resulting downturn was unlike the previous boom and bust in the early 1990s (which largely spared Scotland). Instead, in this case the combination of housing market slow down, credit crisis and wider economic recession has coincided to adversely affect Scottish housing. The importance of housing construction and turnover-related business suggests large negative multiplier effects following the slow-down in market activity and new build.

In the affordable housing sector, Scottish housing associations were faced with similar problems to their English counterparts: a drying up of S75 opportunities to secure new provision and less scope for partnerships with the private sector. Falling land prices meant potential vendors took sites off the market. The tougher terms and conditions for new borrowing resulted in higher interest rate margins and lenders wishing to renegotiate covenants and terms on existing loans as part of the deal. Councils became more important players, not just through the accelerating council house building programme but also as development partners with housing associations for shared equity and general needs development.

Scottish public finances are organised around a block grant from the UK Government, from which all devolved responsibilities, including housing, are funded. The Barnett formula (which is used to allocate funding) additionally implies that changes to spending in UK ministries devolved in Scotland are also passed on in proportion to population shares. The period from 1999 to 2007 saw sustained increases in public spending through this indirect route. Projections about future spending levels, prior to the November draft Scottish budget but based on the Barnett consequentials associated with the October 2010 UK comprehensive spending review (CSR) (HM Treasury, 2010), suggest significant real terms cuts in Scotland which will spill over into the affordable housing budget. The CSR projection is of real terms cuts in four years of more than 8 per cent in the Scottish resource budget, more than 35 per cent of cuts in real capital spending and an overall reduction in excess of 11 per cent. This is less than the average UK Departmental cut of 19 per cent, but it is still substantial and capital-intensive. In 2008–09, the overall affordable housing investment programme stood at £402 million before rising, through accelerated funding to £525 million in 2009–10. It thereafter fell to £352 million in 2010–11.

Since the latter part of 2008, the Scottish Government has gone beyond policies aimed at keeping people in their homes, seeking to use their public housing resources to encourage, and in some cases to speed up, investment in delivering new housing supply. The main ways they did this are by:

- accelerating the capital funding programme for affordable housing by bringing £120 million forward to earlier years;
- making more out of the council house building programme (which is ultimately constrained by councils' ability to borrow through prudential borrowing);
- redirecting resources at the margin from shared equity to general needs; and
- temporarily relaxing proposed cuts in grant per unit to help housing associations facing difficulties raising private finance (see Table 2.1 and Box 2.1).

Table 2.1: Planned expenditure and unit approvals, Scotland, 2009–10 and 2010–11

Supplier grant type	Original planned expenditure 2009–10 (£m)	Planned unit approvals 2009–10	Planned expenditure 2010–11 (£m)	Planned unit approvals 2010–11
Housing association (HA) rent – General needs	335.626	3421	221.507	2117
– Particular needs	82.178	631	59.755	558
Other suppliers – General needs	0.788	19	4.977	102
–Particular needs	0.000	0	0.080	4
HA low-cost home ownership (new supply)	32.564	452	21.902	260
Private developers – GRO grants*	3.830	70	3.672	32
Individuals – rural home ownership grants	1.002	33	0.742	27
Individuals – improvement and repair grants	0.450	106	0.150	
Social/environmental grants	11.143		5.603	
Subtotal	**467.581**	**4732**	**318.388**	**3100**
Glasgow Housing Association (GHA) Efficiencies Grant	12.500	–	12.500	–
GHA Repayable Grant	35.700	–	36.600	–
GHA Demolitions & Reprovisioning	29.500	328	24.500	163
Council House Building	–	1276	13.580	1784
Home Owners Support Fund	20.000	300	20.000	300
Open Market Shared Equity Pilot	60.000	1500	20.000	650
Other Programmes	1.000	–	1.000	–
Capital Charges	–	–	5.000	–
Community Ownership Programme Support Costs (top-sliced)	17.725	–	9.050	–
National Housing Trust (NHT)	–	–	**	1000
New Supply Shared Equity Developers Trial (NSSE)	–	–	**	108
Capital Receipts Shortfall/Reserve			10.382	–
Total Programme	**644.006**	**8136**	**471.000**	**7105**

*Notes:** Grants for Rent and Ownership; ** Funding for these programmes will come from the wider Housing and Regeneration in the Directorate of Justice and Communities budget (£2 million for NHT and £2.5 million for NSSE)
Source: Scottish Government (2010c) (sourced 12 November 2010)

The outcome for the Scottish new build programme was a record number of new affordable housing units (over 8,000 in 2009–10), but also a recognition that subsequently numbers would fall thereafter as public funding declined in the final year of the CSR period (2010–11).

Table 2.2 shows the path taken by new build housing from 1996–97 to 2009–10, covering both social housing and total development. It shows the sharp fall-off in house building since the crunch, with total starts in 2009–10 more than 13,000 down on rates just three years earlier.

The Scottish Government, like the UK Government, has also made pledges about protecting, if not ring-fencing, programmes (in the form of maintaining long-standing spending pledges). A recent independent review of the budget commissioned by the Scottish Government (Beveridge, 2010) however, identified a number of totemic policy platforms that may be under threat: free travel passes for older people, free care, the continuation of a three-year freeze on council tax, and free tuition for home undergraduates.[3] The Scottish Government published its Scottish draft budget response to the UK CSR on 17 November 2010. This will need to be passed by the Scottish Parliament to be enacted (and this is not straightforward for a minority Government). While there were no major changes to the basic political position taken on the earlier response to the Beveridge review, i.e. in not retreating on its universalist principles, nonetheless spending is to fall by £1.3 million and because of ring fencing this will hit areas such as education, transport and housing particularly hard. The headline budget cut for housing is to fall from £488 million in 2010–11 to £393.8 million in 2011–12 – a fall in real terms of more than 21 per cent. At this point the pre-election draft budget only reports spending plans for 2011–12 and does not cover the spending plans for the entire CSR period – this will have to wait until after the election in May 2011.

One perspective of the changed political environment since 2007 has been the stresses and strains on the financial settlement and the willingness of the Scottish Government to seek wider financial powers and to stretch the legal limit of what they are able to do. The recent Calman Commission (2009) on the future powers of the Scottish Parliament, which was not supported by the Scottish National Party but endorsed by the UK Government and Scottish opposition parties, proposed giving additional financial responsibilities to the Scottish Parliament including Stamp Duty (but with an offsetting reduction in the block grant).

Table 2.2: Scottish house building 1996–97 to 2009–10

Year	Social starts	Social completions	Total starts	Total completions
1996–97	4,101	3,204	22,014	20,696
1997–98	3,142	4,603	21,677	22,587
1998–99	3,515	1,873	20,510	20,657
1999–2000	4,282	4,033	22,646	23,107
2000–01	4,699	3,916	22,315	22,111
2001–02	4,658	4,262	23,178	22,571
2002–03	3,707	3,809	22,274	22,747
2003–04	4,621	3,368	27,049	23,822
2004–05	4,406	4,024	27,003	26,468
2005–06	5,127	4,698	26,367	24,947
2006–07	5,584	3,237	28,419	24,247
2007–08	6,214	4,125	26,592	25,781
2008–09	5,765	4,913	19,593	21,019
2009–10	5,580	5,919	15,372	17,474

Source: Scottish Housing Statistics website: http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS (accessed 6 September 2010)

Box 2.1 summarises the Scottish Government's key changes in housing policy in 2008–09 in response to the recession.

Box 2.1: Summary of Scottish Government housing policy responses to the economic and financial crisis, August 2008–April 2009

- Brought forward or accelerated £100 million of £1.5 billion programmed for affordable housing investment by taking funds from 2010–11 and reallocating them to 2008–09 and 2009–10. This was increased in January 2009 to £120 million. The split is £40 million and £80 million over the two respective years.
- Set out new criteria for the use of public funds in the purchase of unsold land and homes from private developers.
- Launched a new Home Owners Support Fund in 2009 to build on the Mortgage to Rent Scheme and introduced a new Mortgage to Shared Equity Scheme to help home owners facing the prospect of repossession.
- Invited Scottish councils to bid for a share in a £25 million pot towards new council housing (with an upper limit of £25,000 per unit subsidy). This figure has now been raised to £60 million (April 2009). A third tranche based on a subsidy cap of £30,000 was subsequently announced.
- Raised the threshold prices for the Open Market Shared Equity pilot and committed to extend the pilot across all of Scotland – worth £60 million in 2009–10. Subsequently, the government decided to reallocate resources from new supply shared equity projects to the affordable housing programme.
- Continuing to press the UK government for further helpful reforms on mortgage market liquidity, stamp duty reform, reduced VAT on repairs and renovations, and an improved safety net for owners.
- Provided an additional £10 million to a central heating programme.
- Announced introduction of an Energy Awareness Package and a campaign to raise awareness about the National Debtline.
- Provided further support (£3 million) for in-court advice over two years, increased eligibility for Legal Aid and a further £1 million to help Citizens Advice Bureaux.
- Set up a short-life repossessions group of stakeholders to assess the adequacy of legal protections for home owners in Scotland.
- Relaxed housing association grant assumptions, effectively raising the average grant rate by 6 per cent from February 2009 till the end of 2009–10.

Source: Updated from Gibb and O'Sullivan, 2009; Newhaven Research Ltd (2009)

In their presentations associated with the *Fresh Thinking. New Ideas* policy document, the Scottish Government identified the depths of public spending cuts and their duration and then went on to identify the major challenges facing the housing system. Scottish Government economists projected that 2009–10 will be the peak year for the departmental expenditure limits (DEL) at just over £30 billion. In real terms, it will take fully 16 years for the cuts to work through with deep cuts year on year for the next five years followed by a recovery to around the same level of spend only in 2025–26 – implying that around £39 billion in real terms will be removed from overall Scottish DEL public expenditure (Scottish Government, 2010b).

If the foreseeable future entails scarce public resources for affordable housing, then it is essential that how those resources are prioritised is defensible and transparent. The next chapter considers both what is meant by housing need in Scotland and how Government is now contemplating reprioritising how the sub-national allocation of funding for affordable housing actually takes place.

3 The need for affordable housing

Housing need, suitably defined and measured, informs the allocation of funds across Scotland and indirectly identifies Section 75 requirements at a local authority level. Local authorities have a statutory requirement to estimate needs within a coherent and consistent framework and the Scottish Government has also commissioned national top-down studies of local housing need, research which has played a part in allocating funds sub-nationally (e.g. Bramley *et al*., 2006).

In *Fresh Thinking, New Ideas*, the Scottish Government reopened the housing needs debate. While they argue that it is for local authorities to measure need through local housing needs assessment, they nonetheless argue that debate is required over the appropriate way to prioritise different forms of need, implicitly suggesting that the present arrangements will not suffice in the new public finance context. In this section we argue that these issues require to be fully explored so that there can be clarity over the use of scarce resources. There are two issues here that may be either combined or treated separately. Each local authority could measure needs on a consistent basis and use the results to inform how it allocates the funds it has at its disposal for affordable housing. At the same time the mechanism by which resources are allocated to local authorities by government for affordable housing may or may not use a resource allocation mechanism which mirrors in part or wholly the locally identified spatial distribution of housing need.[1] The Scottish Government appears to be suggesting that the principles of the national allocation mechanism may need to be reprioritised; while at the same time (for other reasons) questioning the local basis of needs assessment as well.

Government thinking about need

Fresh Thinking, New Ideas raises important questions about how we conceptualise and measure housing need. Despite saying that it is for local authorities to measure need locally (and to use the methodology handed down by the government's own 2008 guidance (CHMA, 2008)), the discussion paper explicitly questions whether the formulaic accounting procedure is the right way forward when confronting these challenges. They point out that national-level estimates of annual affordable supply to meet housing need (Bramley *et al*., 2006), while large, have a wide margin of error depending on the assumptions made (a central estimate of around 8,000 affordable homes to rent but with margins between 4,700 and 11,350). The Government indicates that it is working with local authorities to construct a national needs assessment from the bottom-up (presumably using the CHMA's 2008 housing needs assessment guidance). Most significantly, the government suggest that different conceptions of need may have to be prioritised:

> *With future Government expenditure constrained, tough decisions will need to be made about the relative importance of different types of housing need in driving the distribution of Government expenditure. For example, areas of Scotland with the greatest affordability pressures are typically in the East and some rural areas, whereas regeneration needs are typically greater in the West of Scotland. (Scottish Government, 2010b, p.18)*

Going back to the HNA model

The underlying housing needs assessment model used throughout the UK is based on the original ODPM guidance also written by Glen Bramley and colleagues and is clearly laid out in O'Sullivan *et al*., 2004; Bramley *et al*., 2006; and CHMA, 2008. Housing need is defined in the 2008 Scottish Guidance (p. 54) thus: 'Housing need refers to households lacking their own housing or living in housing which is inadequate or unsuitable, who are unlikely to be able to meet their needs in the housing market without some assistance.' O'Sullivan *et al*., 2004 identify seven different conceptual approaches to housing needs assessment, with different advantages and disadvantages to be traded off. Local affordability models and net stock models focus on newly arising need, whereas survey-based approaches are inherently more convincing with regard to existing need measures.

Both current and emerging need contain subjective policy judgements about what is meant by, for instance, minimum quality, normal household requirements and affordability. Needs assessment is normally carried out at a local authority level, although both O'Sullivan *et al*., 2004 and Bramley *et al*., (2006) argue for analysis across broader functional housing market areas. Finally, there is an important time dimension both in terms of how far forward one considers future needs and also how quickly we might expect policy intervention to tackle existing need i.e. clear the backlog. O'Sullivan *et al*., 2004 argue that the time period should be aligned to the duration of local housing strategies, normally five years.

At its simplest, housing need measures the *fraction of backlog need cleared each year plus annual newly emerging need minus affordable supply*. As with many such assessments, however, the devil is in the detail. It is not necessary here to go into the technical minutiae of these calculations but there are a few points to bear in mind for the rest of this chapter's discussion. A view, for instance, has to be formed about the calculation of affordability involving a threshold entry level for potential first-time buyers. Another set of assumptions relate to the extent to which need may be addressed within the system by *in situ* solutions and moves not accounted for by affordable supply. In other words, not all unmet need requires new supply solutions. Also, migration between local areas has to be considered (see Bramley *et al*., 2006). In addition, there are, not surprisingly, data and technical issues that arise from the combination of secondary- and survey-based sources (e.g. how to measure new households).

The value judgements about the subjective elements within the different stages of the need calculation create local variation in the definition of need, even within a relatively well-defined system (including the 2008 Guidance (CHMA, 2008)). The scope for estimates to vary is then exacerbated by the technical issues identified earlier. These compounding problems (also see Newhaven Research Ltd, forthcoming) lead one to wonder whether it is possible to build a consistent or meaningful bottom-up figure for Scottish housing need.

A way around these sorts of problems is a top-down model based on a common measurement methodology. For several years various estimates have been developed by Bramley and colleagues of national- and local authority-level need using a reduced form model drawn from secondary sources and affordability estimates (i.e. not from bespoke surveys). The successive models are not wholly comparable because of periodic refinements. For that reason we focus only on the most recent 2006 model.

The 2006 model works broadly to the principles set out earlier, combining new household affordable need (i.e. the ability to enter the owner-occupied housing market), future migrant household need and backlog need (summing to gross need), minus supply of affordable housing through relets. The model features econometric estimation of several dimensions of the required data (e.g. affordability). Various sensitivity exercises are carried out, and several policy judgements are incorporated, for example, the backlog quota is set at 10 per cent (or ten years). Analysis is also conducted at housing market area level and further comparisons are made with a selection of local authority local needs studies. The key results are presented in Table 3.1.

Table 3.1: Main results from the Bramley *et al.* 2006 net needs model

Local authority	Positive net need (households)	Surplus	% New households can afford to buy 2-bedroom threshold property	Net need as % of all social renting households	Net need as % of all households
Aberdeen City	60	0	53	0.2	0.1
Aberdeenshire	95	0	66	0.6	0.1
Angus	90	0	57	0.9	0.2
Argyll & Bute	405	0	56	4.9	1.0
Clackmannanshire	5	0	53	0.1	0
Dumfries & Galloway	340	0	48	2.5	0.5
Dundee City	0	700	50	–3.5	–1.0
East Ayrshire	0	590	47	–3.7	–1.2
East Dunbartonshire	580	0	57	9.8	1.4
East Lothian	395	0	44	3.9	1.0
East Renfrew	480	0	43	11.7	1.3
City of Edinburgh	2480	0	31	7.1	1.2
Falkirk	25	0	55	0.1	0
Fife	5	0	53	0	0
Glasgow City	0	4590	26	–4.3	–1.7
Highland	505	0	44	2.8	0.5
Inverclyde	0	475	42	–4.3	–1.7
Midlothian	520	0	41	5.7	1.5
Moray	245	0	58	3.1	0.7
North Ayrshire	55	0	48	0.3	0.1
North Lanarkshire	75	0	53	0.2	0.1
Orkney Islands	5	0	58	0.4	0.1
Perth & Kinross	540	0	56	4.7	0.9
Renfrew	60	0	50	0.3	0.1
Scottish Borders	0	35	59	–0.3	–0.1
Shetland Islands	0	45	62	–2.1	–0.5
South Ayrshire	65	0	53	0.6	0.1
South Lanarkshire	480	0	55	1.5	0.4
Stirling	105	0	51	1.4	0.3
West Dunbartonshire	0	385	42	–2.8	–0.9
West Lothian	350	0	46	1.8	0.5
Western Isles	80	0	51	4.1	0.7
Scotland	8045	6820	47	1.5	0.2
Scotland (2003 model results)	6860	8780	54		

Source: Bramley *et al*. (2006), Tables 2.1 and 2.3

The main findings are as follows:

- Despite seven councils having a surplus, the total annual national net need estimate in Scotland is 8,045. As previously noted, sensitivity analysis provided wide lower and upper bounds of 4,700 and 11,350. Out of 32 local authorities, 25 show a net positive need. The largest need figures were in Edinburgh, Midlothian and Perth & Kinross in the east and centre of Scotland, in East Renfrew, East Dunbartonshire, and South Lanarkshire in Clydeside and the two rural areas of Argyll & Bute and Highland council. Significant surpluses were found in five authorities: in Glasgow, but also Dundee City, East Ayrshire, Inverclyde and West Dunbartonshire.
- The proportion of new households that could afford to purchase entry-level first-time buyer two-bedroom properties was 47 per cent for Scotland as a whole, a reduction from 54 per cent in 2003. Affordability was worst in Glasgow (26 per cent could afford) and Edinburgh (31 per cent), Midlothian (41 per cent) and Inverclyde and West Dunbarton (42 per cent). At the other end, 66 per cent could afford to purchase in Aberdeenshire.
- The analysis was also re-estimated for larger housing market areas (which reduces need estimates primarily due to Glasgow surpluses cancelling neighbouring net need in suburban East Dunbarton and East Renfrew).
- The comparison with existing local studies carried out by councils suggests to Bramley and colleagues that, despite technical difficulties in making comparisons and with exceptions in a handful of local authorities, methodological differences tend to cancel out in the round and the direction of most net need figures 'point in the same direction as [the 2006 Bramley *et al*. study] and are of a similar order of magnitude' (Bramley *et al.*, 2006, p. vi).

From need to spend

Scottish social housing's spatial allocation of resources (how the cake is divided up across a coherent set of sub-national territories) has been subject to several iterations since the emergence of the national housing organisation Scottish Homes after 1987. One of the authors of this report was involved in the development work around two of the resource allocation mechanisms (as well as leading the 1998 Scottish index of area (multiple) deprivation (Gibb, 1997; Gibb *et al*., 1998, 1999). Those exercises drew on experiences of designing deprivation indices and allocating funds to housing associations regionally in England. It involved selecting a number of factors such as deprivation, homelessness, rural housing stress, etc. and weighting them in such a way as to come up with an allocation index that could support the distribution of funds to Scottish Homes regions.

Over time, and certainly in the last few years, the actual resource allocation mechanism used has become much more opaque. The mechanism is not in the public domain but discussions with civil servants suggest that the allocation is currently informed by:

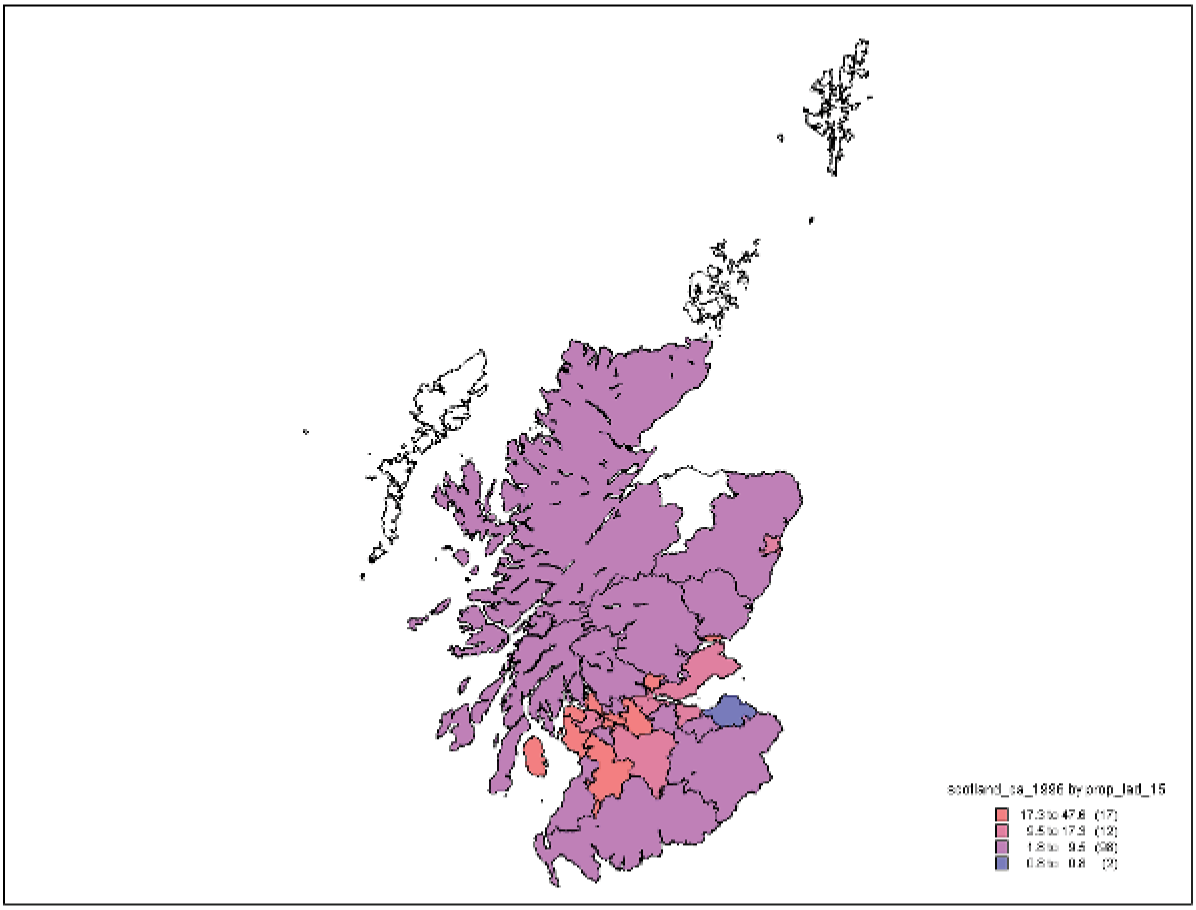
- previous allocations to local authority areas;
- the distribution of housing need (based on Glen Bramley's national housing needs model (Bramley *et al*., 2006));
- the distribution of multiple deprivation (based on the Scottish index of multiple deprivation [SIMD]);
- top-slicing to address special factors such as rural initiatives;
- large-scale policy commitments such as the Glasgow stock transfer.

Fresh Thinking, New Ideas addresses the sub-national allocation mechanism and calls for views about how best to prioritise specific kinds of need. These alternatives were brought into sharp focus during the government's discussion paper road show when the official presentation set out three different maps of housing need measured by different criteria, which suggest different geographies of need and therefore spending distribution:

- **Regeneration**: defined as the percentage of each local authority's data zones that are in the bottom 15 per cent in the 2009 SIMD.
- **Homelessness**: a modelled indicator based on the difference between the modelled need for social lets for homelessness and the modelled number of social lets available in 2013–14 (the first full year after the 2012 full enactment of the homelessness legislation).
- **The affordability ratio**: a simple ratio of lower quartile house prices derived from Registers of Scotland house sales data and lower quartile income derived from income estimates calculated by CACI Paycheck.

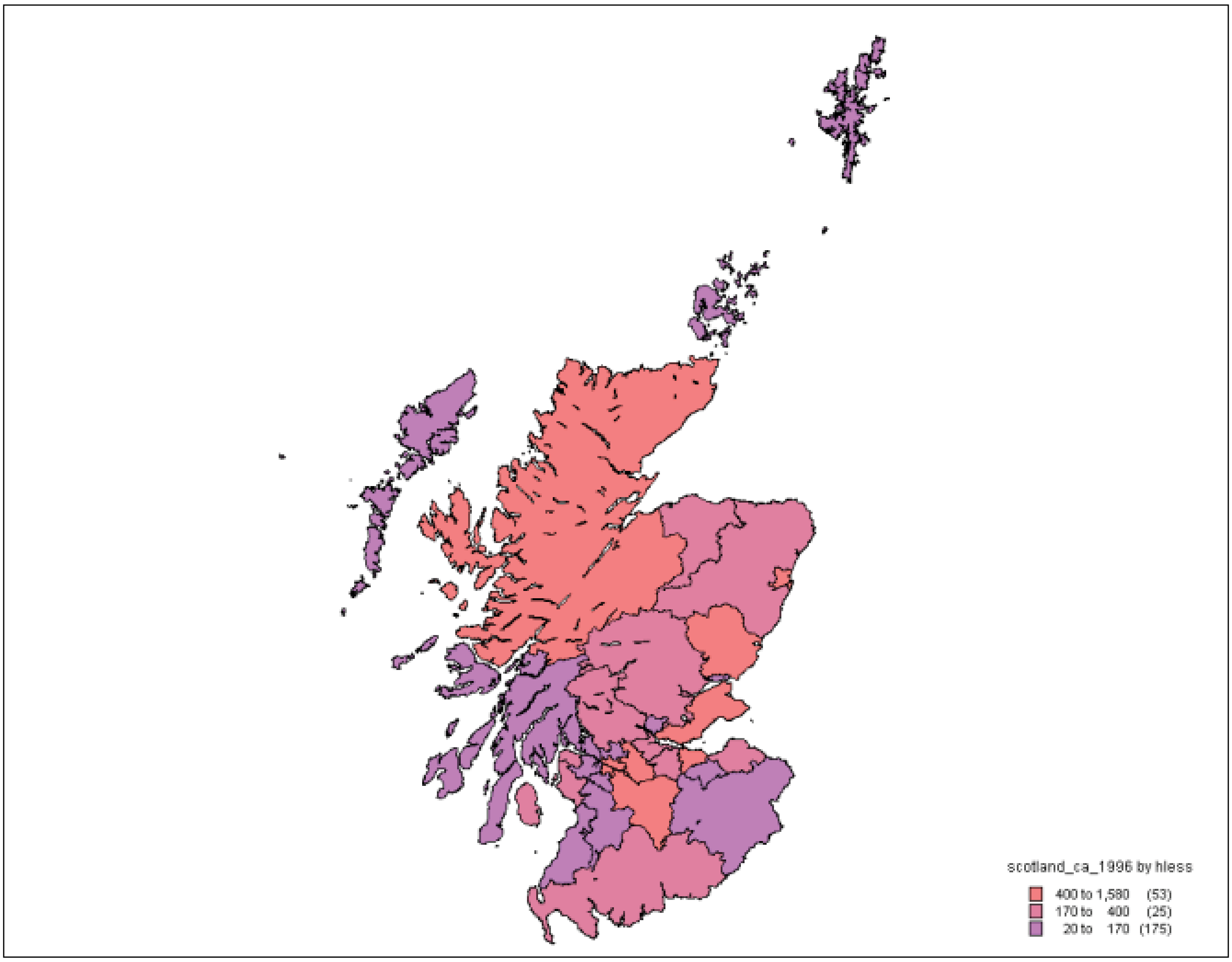
Maps 3.1 to 3.3 present a stylised spatial prioritisation that approximate each of the three concepts above drawing on the HNM indicators and the SIMD.[2] The variation in implied outcomes is quite striking particularly if one contrasts the affordability measure (favouring councils in the East and Highland Council) against the SIMD measure (favouring Clydeside and Dundee City Council). Of course, the spatial impact is also highly sensitive to the definition used within any one classification of priority area. Thus, Table A1 in the Appendix presents several different ways of calculating or conceptualising deprivation, which lead to

Map 3.1: Percentage of Local Authority data zones in 15 per cent most deprived data zones



Note: White-only areas imply that no data were available for those locations.
Source: see Table A1 in the appendix of this report. Original data derived from the 2009 SIMD. Also, see indicator 'Population in most deprived areas', in the Joseph Rowntree Foundation Housing and Neighbourhoods Monitor for a different but related use of earlier (2006) SIMD. See www.hnm.org.uk

Map 3.2: HNM Homelessness Indicator



Source: Joseph Rowntree Foundation Housing and Neighbourhood Monitor (Indicator H9 Homelessness).[3] See: www.hnm.org.uk

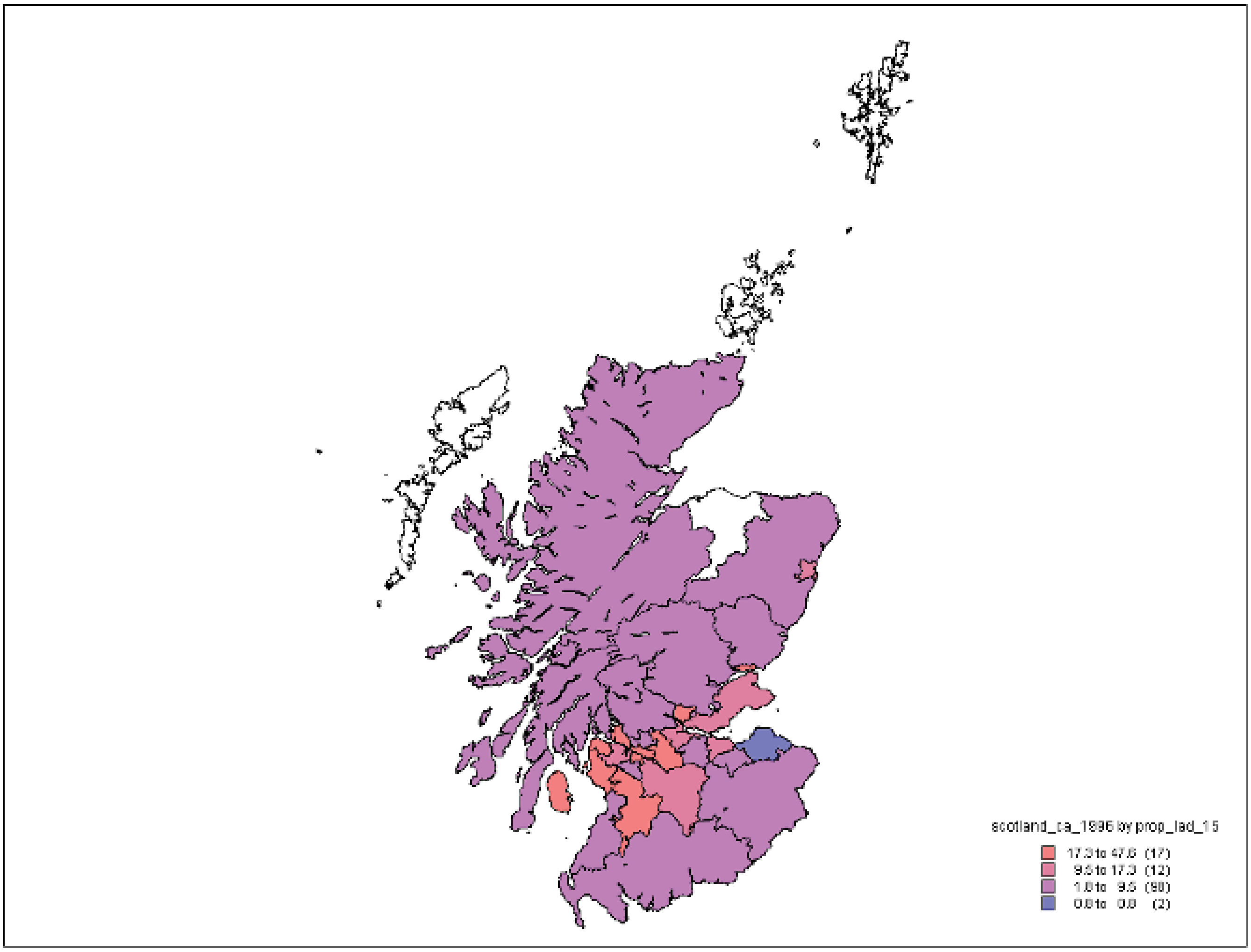
different outcomes. The same would equally apply if we chose different ways of measuring affordability.

In one sense the government is looking for ways to support the prioritising of need and spend in different possible directions, but evidently recognises the importance of balancing the complexities of actual housing need experienced in practice. The most powerful message from the housing needs analysis conducted in the UK since 2000 is that housing need is a multifaceted concept that does not reduce well to one dimension (whatever it is). The more multidimensional the concept the less appropriate will be any (partial) indicator of need, regardless of its short-term political salience. Added to that is the heterogeneity of housing conditions across even a relatively small country like Scotland. The risk is that serious spatial biases in spending will rapidly emerge if too much faith is placed in one indicator.

There is the issue of timeliness and durability of indicators. Deprivation may change slowly over time but affordability measured in terms of ability to meet initial costs of a threshold property would probably be more volatile. It is also not clear how predictable and stable the homelessness indicator would be (particularly moving into a new policy regime). An indicator based on household growth over such a long period moves into the realms of speculation.

How does one arrive at specific indicators? Table A2 in the Appendix describes the local authority variation in specific indicators that relate to housing pressure be it in terms of affordability, household-dwelling balance or homelessness, (adopting three indicators used in the Joseph Rowntree Foundation Housing and Neighbourhoods Monitor: see www.hnm.org.uk). These alternatives tell different stories

Map 3.3: HNM Housing Affordability Indicator



Note: White-only areas imply that no data were available for those locations.
Source: Joseph Rowntree Foundation Housing and Neighbourhood Monitor (Indicator H10 Affordability Ratio).
[4] See: www.hnm.org.uk

about need and its spatial distribution. What makes one superior to another? If a single indicator approach is unacceptable what would be the preferable way forward for a new explicitly multidimensional need/ spending allocation model for Scotland? There are two questions: which indicators should be selected and how should they be weighted?

The selection of indicators has to have as its aim the transparent transmission of the main forms of housing need to the appropriate spatial level. The indicators would need to be reasonably comprehensive, credible to stakeholders and any policy judgements should be explicit and obvious to all. Of course, many of these indicators are already part and parcel of the needs assessment approach: the unaffordability of local markets (owning and private renting); homelessness; indicators of shortage measured by households relative to dwellings; indicators of overcrowding; concealed households; multiple deprivation as a proxy for neighbourhood decline and regeneration demand (alongside a rural need or deprivation counterpart based on more appropriate indicators); physical quality problems; and unmet supported needs. More controversially, the spending allocation might reward performance in terms of previous ability to deliver programmes efficiently (discussed in Gibb, 1997).

To convert any series of indicators into an index that might be the basis of sub-national allocation, all of the indicators need to be normalised and standardised (which may make them lose their transparency and comprehensibility), and then consideration needs to be given to how they are aggregated and in particular how they might be weighted relative to each other – an issue critical to the need priorities debate raised in the government's discussion paper. Gibb (1997) identifies as many as six possible weighting approaches.[5] Any needs model also has to be robust, easily recalculated every few years and politically acceptable to the key stakeholders i.e. those who receive the funds and those who scrutinise the quality of public spending.

The conclusion to this chapter is that even in a time of crisis in public finances, it does not pay to promote new, partial systems of allocating funds prioritised to specific needs that are either fashionable, favour certain constituencies, or otherwise undermine the need for well-understood defensible resource allocation mechanisms based around a weighted single index of the tried and trusted components discussed above. However, it must be remembered that needs assessment requires judgement – it is not and cannot be an objective science. That the government is working with the local authority sector to develop a new needs approach is more promising than to countenance either the opaque practice of recent years or seeking to redirect spending on the basis of one or other dimension of what is a much wider problem. While it is perfectly possible to distinguish between developing comprehensive *local* needs assessment (with its implications for S75 decisions, and how a given level of resources is used to meet the measured unmet need) and the government's spatial model for resource allocation based on *different* conceptions or priorities of need, it would be preferable if both the national and local models were based on the same, broader comprehensive and well-understood model of housing needs. However, those model developments will have to explicitly or implicitly account for the issues raised in this chapter, including how to guarantee that consistent approaches are taken locally.

4 Options to promote new affordable supply

Background

The Scottish Government (2010b) devotes a chapter of the discussion paper to funding new affordable supply.[1] While 2009 saw the largest number of affordable housing starts since 1979 (7,122), it is clear that future public funding will be scarce and that private lending remains both limited and expensive.

Affordable housing supply, including socially rented, intermediate or mid-market rental homes, rely on four critical funding elements:

- *Long-term finance:* normally debt-based private finance but may also be borrowing by local government and could in theory be equity-based investment.
- *Provider/purchaser contributions:* savings for a deposit, the reuse of landlord surpluses or capital receipts, S75 land or other commuted support, etc.
- *Capital subsidy from central government:* an established housing association grant system, the recent grant per unit to councils, or grant contribution to shared equity schemes, etc., revenue subsidy or, for instance, underwriting loan guarantees.
- *Contributions from the social security system in general and Housing Benefit (HB) in particular:* these play a critical role in reducing the burden facing low income tenants, reducing rent arrears and supporting the cash flows that lenders require.

The Scottish Government estimates the current cost of Housing Benefit (HB) in Scotland is £1.4 billion and that around 85 per cent of housing assistance funding comes through HB. The new UK Coalition Government has signalled its desire to restructure and reform HB. While the current system is undoubtedly in need of substantive reform (to reduce or remove moral hazards, overcome means-testing problems, address inequities, re-engage tenant interest in rent levels and tackle disincentives), the wider low-income housing system has been structured over more than two decades around the HB system and there are strong path dependencies. Making radical changes is risky because it may unpick the existing system's stability (e.g. the repayment of private finance) as well as threatening the housing opportunities of vulnerable households.

The Department for Work and Pensions is proposing to restrict benefit on large properties, reduce it for those who are long-term unemployed, and, lower the basis of estimating the local housing allowance (LHA) from the 50th percentile (median) of local size-adjusted rents to the 30th percentile, thereby cutting support to all LHA recipients (with the specific reduction depending on the actual distribution of local rents). In the longer term, i.e. the next Parliament, the government proposes to subsume HB into a new Universal Credit which would appear to be moving from benefit based on actual costs to a standard amount regardless of local variation in housing costs. Bramley *et al.* (2010) argue that Scottish social rents are low relative to market rents (as well as to rents in England) and that the reduction in the LHA will not bite in Scotland.

The affordable housing system is different in Scotland from England for two reasons. First of all, Scottish social housing policy has evolved separately and distinctly:

- *Greater council financial discretion* Scottish local authorities operate their Housing Revenue Accounts with much more discretion than in England. Almost all Scottish councils operate without subsidy and consequently have more freedom over rent-setting (there is no national rent structure) and the reuse of surpluses to augment prudential borrowing for capital spend.
- *Different housing structures* Large Scale Voluntary Transfer (LSVT) initially applied to the wind-up of new towns and the disposal of Scottish Homes' own stock and took the form of more than a hundred smaller-scale transfers, prior to a handful of local authorities transferring stock under the Labour Lib Dem coalitions (notably Glasgow). Neither Arms-Length Management Organisations (i.e. ALMOs) nor Private Finance (PFI/PPP) models have featured in Scotland. Consequently, council housing has a different profile and potential in Scotland, all the more so as a result of the explicit support it has received from the Scottish National Party Government since 2007.
- *Less history of delivering affordable housing through planning* Whereas English affordable housing is based on 20 years' experience of using S106 affordable housing planning agreements to secure new affordable units, the Scottish equivalent of S75 remains relatively new and its impact uncertain in Scotland.
- *A less competitive approach to grant funding* Also, the absence of direct competition for grant has meant higher grant rates per unit in Scotland (Gibb and O'Sullivan, 2008). Scottish housing associations generally also have much less experience of consortia, partnerships for procurement and simply much less scale in development and finance. The capacity to deliver affordable housing quickly and to scale is correspondingly reduced.

The second reason for the different context for affordable housing is necessity. The Scottish Government has a limited set of tools with which to influence affordable supply and finite (shrinking) public resources. The recent fiscal crisis has encouraged efforts to test the boundaries of public spending definitions of public spending, and the powers of Holyrood, in order to expand supply. This has led to a degree of policy creativity and lesson learning from elsewhere. However, trying to devise policy in this way, at the margins of funding rules, can often be at the mercy of path-dependent changes elsewhere in the existing system, such as the Department for Work and Pensions proposals for HB.

Fresh thinking and the funding of affordable supply

The Scottish Government (2010b, p. 24) argues that traditional methods of funding affordable housing (be it social renting, mid-market rent options or various forms of shared equity) have to change in the new funding context. To push this point they illustrate the public finance value for money of the different options currently available (Table 4.1).

At £70,000 per unit housing association new build looks, on the face of it, to be very expensive compared with the new council building option. However, it is a slightly unfair comparison in that the £30,000 unit ceiling for council houses (councils received £25,000 for the two tranches of grant-supported council new build) does not include the favourable borrowing terms a local authority can enjoy, nor the opportunity cost to the taxpayer associated with the use of council land or public borrowing. Nonetheless, the gap in top-line subsidy is stark and explains the call for a single capital subsidy regime to operate across the entire social sector. A single capital model for all social housing would have to operate within borrowing capacity limits facing all councils, so it is not clear how such a model might work in practice.

Councils have had the right to bid for three phases of council incentive funding. Successful bids combine grant subsidy (£25,000–30,000 per unit), capital receipts and revenue contributions from rental surpluses (known as CFCR – capital funding contributions from revenue) with prudential borrowing – providing that there is evidence of demand (need) and affordable rents. A key feature of the scheme is that the CFCR and the rents funding the investment are pooled from the entire local authority rental base so that

Table 4.1: Current funding/subsidy options

Grant type	Duration (years)	Average Scottish Government component per unit	New supply?	Comment
Housing association grant	60+	£70K	Yes	New lets almost wholly to lowest-income deciles. *Planned approvals fell from 3,421 units in 2009–10 to 2,117 in 2010–11*
Council house building incentive	60+	£30K	Yes	Severely constrained by local authority borrowing limits, new lets as above. *Planned approvals grew from 1,276 in 2009–10 to 1,784 in 2010–11*
Rural Housing for Rent (pilot)	30	£60K	Yes	Uses short assured tenancies but at social rent levels and targeted at LA nominees *but on a small scale only*
Intermediate rent (MMR)	30	£45K	Yes	Currently not on any significant scale. Uses short assured tenancies. Rents at 80% of market rent and targeted at economically active but low to moderate incomes
New Supply Shared Equity (RSL)	Can be sold on capital receipts recycled to Scottish government	£55K	Yes	Targets customers similar to MMR. *Planned approvals are estimated to be 260 units in 2010–11*
New Supply Shared Equity (Developer)	Can be sold on capital receipts recycled to Scottish government	£23K	Yes	Currently being piloted. Target customers as above. *108 units planned for 2010–11*
Open Market Shared Equity Pilot (60–80%)	Can be sold on capital receipts recycled to Scottish government	£35K	No	Target customers as above. *650 units are planned for 2010–11 summing across this heading and the row below*
Open Market Shared Equity Pilot (70–90%)	Can be sold on capital receipts recycled to Scottish government	£28–33K	No	Target customers as above (subject to ability to afford slightly higher stake)
National Housing Trust (Guarantee)	5–10	£2–4K	Yes	Short assured tenancies. Rents and targeting largely as for MMR. *1,000 units approved for 2010–11*

Note: The comments column is reprinted from the original with the authors' additional comments in italics.
Source: Scottish Government (2010b)

existing tenants are contributing to the programme (Bramley *et al.*, 2010). This scheme was encouraged by the Scottish government's abolition of the Right to Buy for new build social housing. Rents often need to go up significantly to pay for the development. Midlothian embarked on a three-year programme prior to the grant scheme that involved a 22 per cent rent increase for all stock plus a 25 per cent rent premium on new build (Jackson, 2009).

The Rural Housing for Rent pilot and the Intermediate Rent (mid-market rent [MMR]) offer private tenancies but at sub-market rents with the lower rural rent indicating the need for a higher capital grant. These are both at pilot stage, although the MMR option is the subject of much discussion – many charitable Scottish housing associations would be required to set up subsidiaries in order to participate.

The four different shared equity schemes identified here relate to whether the new build partner is a housing association or a private developer, while the open market scheme refers to purchases identified by suppliers off the shelf – all of which are aimed at the intermediate housing market segment. Again, the different grant-per-unit estimates is indicative of the average share purchased by the owner compared with the state.

The National Housing Trust (NHT) involves councils setting up joint ventures with developers who have unsold sites. These projects will offer mid-market rentals but with the rent capped at 80 per cent of the LHA. After 5–10 years the properties can be disposed of. The council stake is a public works loan board loan and the risks it faces concern rental income and capital losses at resale. The Scottish Government is providing a loan guarantee against those losses at a level of £2,000–4,000. This may be an underestimate since there is an opportunity cost attached to the capital borrowing that cannot be used for another purpose. Twelve councils have formally bid to run National Housing Trust joint ventures in their areas and this is planned to generate 1000 units. The planned reduction to the LHA does not appear to have reduced the appetite for this model, reinforcing the point made by Bramley and colleagues (Bramley *et al.*, 2010) about lower rents in Scotland.

Overall, both in terms of planned approvals and if we accept the broad thrust of the figures in the Bramley *et al.*, 2010 study on future financial capacity (subject to future levels of programme public funding for Scottish affordable housing), it appears that the mainstream housing association programme and the council incentive scheme, followed by the National Housing Trust mid-market rent proposals, offer the lion's share of likely new build. It is much harder to be specific about the future size of the various shared equity models. Again, this depends on the absolute level of the programme and how it is divided between shared equity and rented housing. Shared equity also depends on demand and the attractiveness and feasibility of alternatives. For instance, should the mortgage market recover in terms of willingness to lend to potential first-time buyers (currently the key constraint for would-be first-time buyers), the requirement for shared equity may well lessen significantly. Similarly, the willingness of housing associations or indeed private developers to act as partners for shared equity cannot be guaranteed, particularly if other sources of housing demand subsequently improve.

Table 4.2 shows the public subsidy (up to £25,000 per unit for rounds 1 and 2 of funding; up to £30,000 for round 3) and the total units to be constructed across the three rounds of council building for the 22 participating local authorities in 2008–10. The total proposed build from the three rounds is just under 3,300 units at a grant cost of just under £80 million (and this would have prudential borrowing of more than £200 million as well). The most public funds went to West Lothian, Edinburgh, East Lothian and Midlothian but significant grant funding also went to areas such as North Lanarkshire, Stirling, Aberdeen, Moray, Highland, Fife, Falkirk, Perth & Kinross and South Lanarkshire. Thirteen councils have a programme exceeding 100 units, five plan for greater than 200, with West Lothian at the top with a planned programme of 515 units.

Table 4.2: Scottish council building programme, 2008–10

Local authority	Population (2008–09)	Rounds 1–3 total allocation (Units)	Rounds 1–3 grant (£m)
Aberdeen City	210,400	151	3.93
Aberdeenshire	241,460	155	4.1
Angus	110,310	81	2.24
Clackmannanshire	50,480	24	0.6
Dundee City	142,470	40	1.04
East Ayrshire	119,920	50	1.3
East Dunbartonshire	104,720	52	1.43
East Lothian	96,100	267	7.155
City of Edinburgh	471,650	280	7.48
Falkirk	151,570	132	3.48
Fife	361,890	160	4.31
Highland	219,400	106	2.925
Midlothian	80,560	352	5.255
Moray	87,770	172	4.92
North Ayrshire	135,920	63	1.645
North Lanarkshire	325,520	218	5.625
Orkney Islands	19,890	78	2.0
Perth & Kinross	144,180	81	2.25
Shetland Islands	21,980	20	0.6
South Ayrshire	111,670	68	1.83
South Lanarkshire	310,090	106	2.775
Stirling	88,350	127	3.45
West Lothian	169,510	515	9.615
Scotland	**5,168,500**	**3,298**	**79.955**

Note: Councils who had undertaken whole stock transfer excluded (Western Isles, Argyll & Bute, Glasgow, Inverclyde, Dumfries & Galloway, Scottish Borders), plus others not participating: East Renfrew, Renfrewshire and West Dunbartonshire.
Source: Scottish Government Housing website (www.scotland.gov.uk/Topics/Built-Environment/Housing) (accessed 8 September 2010)

Evaluating different options for delivering new affordable supply

The Scottish Government has proposed a number of criteria with which they would judge new proposals to enhance affordable supply (Scottish Government, 2010b, p. 32).[2] Hall and Gibb (2010, p. 5) propose a different, complementary set of points, arguing that any housing subsidy system should possess the following characteristics:

- It should be able to withstand shocks over the often quite long periods of repayment of initial investment.
- It must be able to work efficiently and without creating distortions to the housing market or leading to other unintended consequences such as subsidy-induced labour disincentives.
- It should be consistent with society's norms about affordable rents and prices
- It should be transparent and simple to understand to housing providers, lenders and regulators.

- It should work with the grain of other related social policies, for example, those affecting labour incentives and building mixed communities.
- It should enable new supply to be quickly forthcoming.
- The system should offer good value for money for the public purse, keep costs under control and allow for an appropriate financial and regulatory relationship between state and landlord.

A review of new policy proposals

Below, the initiatives discussed in *Fresh Thinking, New Ideas* are assessed, returning to the Hall and Gibb criteria, in order to help evaluate what is being proposed to deliver affordable housing. We also look at other pertinent ideas not included in the government's discussion paper that might expand the funding options to assist in delivering new supply.

1. Council house building incentive

The building programme to date has been successful and created opportunities for innovation and, in some cases, development partnerships between councils and local housing associations. Future building by councils will depend on whether existing tenants are willing to contribute through higher rents (in addition to increases to fund housing standard improvements) and whether council managers and politicians continue to believe that this is the best use of borrowing capacity overall (Bramley *et al*., 2010). The Scottish Government indicates that it is currently looking with Convention of Scottish Local Authorities at (unspecified) ways to support new long-term funding to allow councils to continue to develop (2010b, p.26). Bramley *et al*. (2010) have recently published a study modelling the theoretical financial capacity of councils and housing associations to build in Scotland. They assume 50 per cent housing association grant rates and 20–25 per cent LA grant rates for new build. The research suggests that councils have the capacity to carry on building large volumes of general needs housing of 2,500 units per year at an annual subsidy cost of about £70 million provided the willingness to borrow remains along with the acquiescence of tenants to pay higher rents (the figure also depends on the composition of borrowing and CFCR from rents). There is of course no way to tell how much lower actual delivery would be relative to theoretical financial capacity. The authors do recognise that the figures may need to be reduced by around 20 per cent since their financial capacity estimates take account of local need and several councils would not be likely to build where there is no or very little local need (this is of course highly relevant given the discussion in the previous section of this report). Finally, the capacity estimates are of course critically dependent on the level of public funding available in future investment programmes – this is highly uncertain.

One idea (outlined by Bramley *et al*., 2010) is to develop a single grant-funding regime for all social housing, rather than the existing housing association grant regime for associations and the new council building incentive grant. Although there has been little detail on how a single capital funding regime might work for both councils and registered social landlords (RSLs), it is clear that it would bring down substantially the average grant rate for RSLs, requiring them to also cross-subsidise new developments from higher rents across their existing tenants and there may also be a need for some form of opening up of council land resources to RSLs or opportunities for RSLs to develop council build as part of the model if there is to be something approaching more of a level playing field. As indicated above, it also has to work in a context of finite borrowing capacity on the part of councils.[3]

2. Leverage models

These are other ways of providing government support, other than up-front grants to assist with intermediate affordable need, for example by offering loan guarantees. An example of such leverage would be the National Housing Trust model wherein loan guarantees (and the underlying ability to borrow by the council) lever-in additional intermediate housing. A second variation concerns Local Partnership Pilots, wherein local partners are encouraged to bring forward innovative proposals to deliver affordable supply through mixed tenure and similar programmes. One example involves a public sector development guarantee being explored by Edinburgh council, the Scottish Government, RSLs and commercial partners. Similar in intent, the Scottish Government also wishes to reduce legislative and regulatory barriers to investment. To this end the government are consulting on amending the legislation on residential lease and standard security rules in order to facilitate new ways of funding. Such legal reforms, if carefully developed, are another useful necessary condition for widening the potential set of supplier vehicles and affordable housing products within the housing system.

3. Shared equity, cross-subsidy and grant receipts

The approach here is to support cross-subsidy from different income or equity sources to support new investment. The innovative element here concerns relatively new proposals for shared equity with private developers as partners with government. The discussion paper also points to the recent example of proposals to develop shared equity partnerships (e.g. Grampian Housing Association) between developers and housing associations that require no subsidy (Clapperton, 2009). This is a cross-subsidy model relying on a mix of for-sale and rental income properties that allows shared equity to be developed without subsidy. While it is true that many commentators have argued that the cross-subsidy model has been exposed as vulnerable to market downturns, what is interesting is that this model is working now in Aberdeenshire during these wider market difficulties. A different example is provided by the Glasgow and West Federation of Housing Associations which have suggested promoting voluntary sales schemes to sitting tenants where, rather than giving housing association grant receipts back, these are reinvested in new affordable housing. This requires Treasury approval but has been favourably received by Scottish ministers. Properly policed, this should be a useful addition, particularly at smaller scales, to local investment routes and may serve to make the wider case for access in general to housing association capital receipts (noting that in recent years the rules governing capital receipts accruing to stock transfer housing associations in Scotland have been relaxed).

The other form of cross-subsidy is pooling: using higher rents in the existing stock to part fund new development. This is the idea inherent in Scottish council building and was common in the English RSL sector. Housing associations have limited freedoms to increase rents beyond certain limits (e.g. the RPI + 1% rule (e.g. limiting rent increases to no more than retail price inflation plus one per cent)) or against stock transfer rent ceilings, if they apply. The Scottish Housing Regulator would need to intervene or policy in the form of national rent setting would need to be reconsidered. It is not clear that there is either the appetite or the means for a quick way to allow higher rents and hence deeper cross-subsidy among Scottish housing associations as a general principle.

4. Co-operative and mutual home ownership models

The Scottish Government supports the principle of community land trusts (CLT) (whereby land is held in perpetuity by a trust), thereby reducing purchase costs to those of the structures alone, with the financial gains from rising land values remaining within the community. Christman (2010) argues that a CLT partner can in particular make rural shared equity new supply much more affordable). Government envisages extensions to this model whereby residents could be linked into the collective value of their land with different ways of sharing in the equity growth in the land. These sorts of policies could also be integrated with self-build schemes. While these models have considerable political support at grassroots levels, the discussion paper is short on practical ways as to how communities can purchase land and receive the necessary support to construct viable CLT models at anything more than a very small scale. It is not clear whether the CLT model is viewed as a general solution to affordability or rather something much more specific and limited to situations of housing pressure combined with specific community sustainability problems (hence the support for the land reforms in Scotland that enable a community right-to-buy land).

5. Housing and infrastructure loan funds

The government initially wished to establish a loan fund with which to help developers meet upfront infrastructure costs in new housing projects that would be repaid on resale. This was deemed not to be affordable in the present circumstances and has been dropped. An alternative approach not raised in the discussion paper might be to offer public loan guarantees so that developers can access less onerous private loans and these could be tied to a commitment to promote mixed tenure or a proportion of affordable housing. The Scottish Government has also explored the use of European funding and one of these funds, Joint European Support for Sustainable Investment in City Areas – the replacement for EU structural funds – offers financial support of infrastructure development for regeneration in Scotland's most deprived areas. These sorts of initiatives are seen as ways to unlock development and contribute to funding the implicit financial deficit normally associated with new housing requiring subsidy. It is only part of the solution but without help infrastructure costs can prevent development going ahead.

6. Planning policy, conditions and agreements

Primarily, this is about the use of Section 75 affordable housing agreements. There are recent examples of such policies that have delivered mid-market rent and low-cost home ownership with little if any grant subsidy at all. Bramley *et al.* (2010) argue that in the best case scenario, including cross-subsidy and zero-priced land in S75 agreements, that this could increase the supply of affordable units in Scotland by as much as 43 per cent per annum. Nonetheless, the evidence suggests that this is overwhelmingly a policy that operates when markets are buoyant and land prices are rising. The limited evidence suggests that S75 affordable housing has worked best in areas of high demand. Affordable housing agreements are now permanent features of the policy landscape, particularly given the lack of sufficient quantities of public land that could be reused for housing. This is despite the policy's vulnerability to market conditions and that many of its underlying assumptions (for example about cost-effectiveness and the reasonableness of burdens imposed on developers) can be questioned (O'Sullivan, 2008). To the extent that the Scottish system will over time come to resemble the English reliance on local planning agreements to deliver affordable housing, then one still needs to ask how non-market housing is to be promoted and developed during market downturns.

7. Competitive bidding arrangements

Unlike in England, Scottish housing associations do not compete explicitly by bidding down required levels of grant. The government remains keen on a bidding competition to reduce average required grant levels (selection, quality and price) in particular areas, although it is recognised that the current market offers opportunities to keep tender prices down. There is considerable resistance in Scotland to competitive grant-making for social housing from the RSL sector (not surprisingly) but it is inevitable that the government will seek to find ways to reduce the average grant per unit and encourage cost-cutting, thereby stretching public resources further.

8. Landlords seeking more value from existing resources

There are also questions about how landlords themselves can deliver more efficient asset management and release resources for investment by reducing costs, sharing services or resources, rationalising stock and by finding cost-effective ways to increase revenue (i.e. the scope to increase rents) and better treasury management. The Scottish Government argues that a review of the £300 million in free cash reserves and the £2.7 billion in assets held by the housing association sector could be made to 'work harder' (Scottish Government, 2010b, p. 30). The use of reserves is a highly charged political issue. On the one hand government may view reserves as surpluses earned with the help of housing association grant and hence that there is a legitimate public interest in recycling them for a public purpose. However, RSLs question just how free their reserves are and fundamentally view their control over their reserves as key to their independence.

9. New sources of finance for RSLs

The credit crisis has highlighted the weakness with traditional long-term debt finance. Other sources of finance suggested by the Scottish Government include:

- The European Investment Bank (already successfully tapped into in 2009–10 for £70 million).
- Bond funding and looking at ways for individual associations to partner together and work with The Housing Finance Corporation.
- Institutional investment funding from pension funds and other financial institutions in the form of equity shares or loans, or to follow up the proposed Welsh housing investment trust. Recent press coverage (*The Herald*, 7 October 2010) indicates that the Scottish Government, alongside the Welsh Assembly Government, are exploring equity investment ideas with the pension funds with a view to develop special purpose vehicles that would inject direct investment into social housing.
- A new Scottish housing investment bank which could develop funding structures and 'provide a channel for' (Scottish Government, 2010b) bond finance, European and other sources of funds, thereby supporting wider investment in the sector and increasing competition among lenders. In principle, such a bank might also be the basis for loan guarantees going beyond the National Housing Trust model.
- Equity release models e.g. associations selling a part share of the property to sitting tenants.

While part of the 'need' for other sources of finance reflects short- to medium-term market gaps in traditional bank funding, there has long been interest in widening the pool of housing finance to attract financial institutions, equity funding and also to draw further on capital markets. This will potentially transform the sector and that is both a strength financially and a weakness or threat to the traditional sector. Equity funding will require new governance models, perhaps joint ventures and subsidiaries to accommodate the not-for-profit charitable nature of housing associations. At the same time, bond funding requires scale either from larger entities or UK national-level providers. This raises understandable existential difficulties for the community-based movement. In the end, the opportunities to the financial sector have to be viable and the returns sufficiently attractive. The restrictions proposed to Housing Benefit must create further hurdles to potential progress here.

Overall analysis

If we review these nine sets of proposals against our earlier criteria a number of points arise.

First, the Scottish Government is adopting an explicitly pragmatic approach to looking for new options that work. Evidently there is no single 'magic bullet' but one has to be careful about introducing several smaller-scale initiatives: these still require careful thought and explicit choices to be made. Thus, for example, quite how a single capital grant regime for social housing will work requires considerable careful detail. At the same time government has to prioritise between funds for general needs social housing for those on low incomes and shared equity subsidy for potential owner-occupiers on moderate incomes.

Second, many of the proposals suggested above are fundamentally reliant on the state of the market or require access to new sources of long-term funds such as pension funds, which brings risk as well as finance (but remains perhaps the most exciting opportunity for the sector).

Third, the embedded equity within the social housing sector can only increase in significance over time and the issue is really whether smart and politically acceptable ways can be found to refinance the equity on the housing stock or make wider use of initiatives such as voluntary sale and grant recycling.

Finally, subject to a number of important assumptions, there is every likelihood that councils will be able to continue to build new homes. Bramley *et al.* (2010) make the interesting point that council management performance has not been uniformly strong in recent years in many councils, and, noting that the majority of councils are doing their development work in-house, they raise the idea of whether excellent management performance standards might be a gateway to subsidy. They also question whether the importance of pooled rents, rental growth and headroom (i.e. scope to increase rents) will create pressure for a national converged rent structure in Scotland. A national rent scheme that raised rents in lower-rent councils relative to the average would, it would appear, create opportunities for more new build in those areas, provided tenants would accept such a move (as opposed to using the rental surpluses to improve the existing stock).

If we discount the short-run impact of more non-traditional routes which have genuine longer-term prospects e.g. pension funds and other equity investment and the wider proposals discussed below, it does look like the main ways to deliver affordable housing will be through housing association general needs, the council house building incentive scheme and, to a lesser extent, through the National Housing Trust. Shared equity and low-cost home ownership public funding has been significantly reduced (see Table 2.1) and it is unlikely that this will be reversed while resources are so scarce. Moreover, when the market recovers the demand for such products may fall as affordability and lending improve.

Further options

There are also other options that have been recently discussed in Scotland and elsewhere but do not feature in the government's discussions. These draw on wider research on affordable housing and are outlined and assessed below.

Changes to council borrowing

Perry and Wilcox (2010) argue for changes to the way councils can borrow for housing investment. Perry and Wilcox argue that there are several grounds for moving to the European definition which would allow borrowing (although not grants) not to count as primary government debt. With such a reclassification, councils would be more able to resume their earlier role under the Right to Buy as a provider of mortgages (and mortgage guarantees). However, they also recognise that Scottish councils who almost entirely receive no recurrent subsidy operate in an environment where borrowing counts as annual managed expenditure not the more tightly controlled departmental expenditure limit (DEL) (in England borrowing is counted as 'supported' because of subsidy and therefore fits into the DEL regime). In this sense, and with a largely self-financing Housing Revenue Account system, Scottish councils are already better placed to build new homes – one reason why the Scottish council incentive scheme has been so effective.

A radical example of the Scottish financial freedoms that councils can exploit comes from East Lothian. Spilsbury (2009) reports on the innovative relationship between East Lothian council and its preferred development partner East Lothian Housing Association. Essentially, the council is providing the association's private finance requirements (in a context where traditional funding from banks is scarce and expensive). An initial pilot based on a 30-year loan of £200,000 to build five homes was approved and successful. This was followed by a larger loan framework based around a loan facility of £25 million.

Recycling of assets

Whitehead and Scanlon's (2007) review of social housing in Europe discusses the recycling of public or social housing assets through sales to tenants, the use of unencumbered assets (both houses and land), the explicit use of accumulated reserves and cross-subsidy (although much of this activity occurred in the UK). Germany so far is the only example providing evidence of large-scale private sector equity involvement via privatisation sales of municipal housing in places like Dresden in the East and through partial transfers in the West (Whitehead and Scanlon, 2007, p. 90). Under such models:

> *A licence is specified, clarifying the conditions under which tenancies are to be provided, including how rents may be set, when evictions may take place, etc. It also clarifies the rights of the new owner to sell properties, demolish and redevelop them, and their responsibilities with respect to management, maintenance and improvement. (Whitehead and Scanlon, p. 91)*

Many of these privatisations have run into difficulty during or after the credit crunch, suggesting that the original wave of privatisations were not well thought through and in some cases lacked sufficient regulatory oversight and binding commitments by purchasing landlords. Any large-scale introduction of private equity in Scottish social housing would need a reasonable degree of policing.

Loan guarantee schemes for social housing

Gibb and O'Sullivan (2010) examine loan guarantee schemes for social housing, including looking at international models (such as in the Netherlands and Sweden). The Dutch schemes have reduced the margins on borrowing, they only need to cover the high-credit risk portions of loans (like an indemnity guarantee) and their public cost is only the expected loss on the insurance, minus any fees or recycled income that might be generated if the charge was shared in a co-insurance format. The authors also discuss whether clubs of housing associations or their trade body might work with the financial sector to develop such a scheme, recognising the considerable transaction costs of setting such a thing up. They recognise the value for money potential of the National Housing Trust model (or indeed schemes run by local authorities) and conclude that a guarantee scheme or the options created by thinking more about the potential gains from public (or public–private) guarantees are worth closer scrutiny but will need to overcome specific hurdles, for example, European Union trade aid rules. Finally, Gibb and O'Sullivan argue that having such policies on the shelf for the next crunch/downturn would be a useful safeguard.

Land bank funding

O'Sullivan (2010) discusses the successes associated with land bank funds in the Highlands. In a scheme in 2005, land for affordable housing was funded by central government grant support matched by hypothecated council receipts from second home council tax. The land is potentially available to a number of partners. By August 2008, the land bank fund in the Highlands was worth £15.5 million. A critical feature is that loans are repaid through development realisation so that its role is more about allowing purchases to be brought forward and development planned through short-term finance rather than long-term subsidy. O'Sullivan argues that this model does not of itself require Scottish Government funding, given the role of land sale receipts and council tax revenue. He concludes that in the upswing stage of the market cycle this sort of initiative can play a valuable role in assisting land purchase and affordable supply. Elsewhere in Europe, several countries continue to use cheap public sector land because, if the ownership of land is not transferred in some form of partnership arrangement, it does not show up in public accounts. This is also important in regeneration projects in countries like Holland, Denmark, France and Germany (Whitehead and Scanlon, 2007, p. 92).

Capital financing for residential renting?

Hall and Gibb (2010) examined affordable supply in a supporting paper for the Joseph Rowntree Foundation Housing Market Task Force. They draw lessons from a brief review of international evidence. They report work on recent models of capital financing of residential renting projects within emerging markets. Le Blank et al. (2009, p. 384) examine European securitisation and conclude with respect to direct capital market issues by social landlords (chiefly in the UK) that UK RSLs as undiversified social providers are investment opportunities when other parts of the economy are in a downturn (whereas wholesale funding grows with wider economic expansion). Thus efforts to diversify funding streams including pension funds, capital markets and long-term bank debt 'should be considered prudent' (Le Blank et al., p. 385 footnote 15). Other options may be found in US affordable housing, which is provided through a package of federal and state programmes, normally augmented by funds from 3rd sector institutions (Le Blank et al., 2009, p. 388). A development once approved by the relevant agencies can become eligible for state credits for federal credits. The two key federal tax code subsidies are the low income housing tax credit and local government tax-exempt bonds.

In summary, there are other options that could be added to the Scottish Government's list of possible ways to add to affordable supply and there are lessons to learn from policies attempted elsewhere (e.g. that there are positive diversification benefits in attracting pension fund direct investment into social housing). However, we also saw that these equity-related innovations need to be regulated sensitively. Council provided loan guarantees could surely be explored further as a way of reducing the risks associated with social housing development and by so doing help to reduce the current punitive costs of private finance. Proposals, such as the land bank funding model could also support social housing development when land prices are rising. A broader loan guarantee system for social housing has the added attraction of being able to quickly come off the shelf in the next downturn. The advent of the National Housing Trust shows that the principle of loan guarantees can be applied in social housing but it is by no means the only way to use them.

5 Conclusions

This report has focused on how Scotland nationally and locally responds to the affordable housing funding crisis. It is a response to the government's *Fresh Thinking, New Ideas* discussion paper published in the summer of 2010. The report focuses on the question of prioritising need in new ways in response to much reduced resources relative to the challenges faced. The report also builds on the Scottish Government's pragmatic turn that all possible ways of augmenting affordable supply through different funders and providers and partnerships should be fully explored. In addition to reviewing the proposals suggested by the government, the report also considers wider perspectives and alternatives suggested in the UK and elsewhere.

The main messages are:

- Housing policy, ostensibly devolved, remains heavily constrained by reserved powers at Whitehall, particularly with respect to HM Treasury and Department for Work and Pensions.
- After a decade of plenty, Scotland must find innovative cost-effective ways to deliver the public and private finance required to expand affordable housing.
- Needs assessment locally allows councils to target their funding and facilitate Section 75 planning agreements, which can support the delivery of new affordable housing alongside wider private housing developments. The national analysis of the distribution of housing need can be developed using either a bottom-up understanding of local need or top-down approaches using consistent modelling of local need from the centre. However, the Scottish Government is currently suggesting that the way it allocates national funds locally could be based on simpler single criteria such as homelessness or affordability. This report argues for a reasoned multidimensional model of need to allocate resources sub-nationally, perhaps directly linked to the bottom-up aggregation of new local needs assessment currently being developed with Centre for Housing Market Analysis in the Scottish Government.
- The Scottish Government is adopting an explicitly pragmatic approach to look for new options that work. First, there is no single 'magic bullet' – explicit choices need to be made between a range of options with different financial implications. Second, many of the proposals suggested are fundamentally reliant on the state of the market or require accessing new sources of long-term funds such as pension funds, which brings risk as well as finance.
- The pragmatic search for new models is sensible and there is evidence locally of innovations that work. However, many of the proposals are vulnerable to the market and wider drivers such as changes to the HB system (for instance, cutting back HB increases the risks lenders face and may lead to adverse changes in the terms and conditions of private finance).
- Among the proposals outlined by the Scottish Government, several are worth more detailed investigation. It would make sense to explore law reform to reduce barriers to investment and promote the (slightly wider) niche use of co-operative and community land trust ideas. Such reforms could also link to opportunities for communities to purchase land. The government could also include discussing viable mechanisms to allow 'free equity' in the housing association sector to be either refinanced or in part used as a fund to kick-start loan guarantees from a housing investment bank.
- There are also several other ideas worthy of further consideration (for instance, developing ideas for funding through private equity from the institutions, but also, at a completely different scale, to allow associations to recycle capital receipts from voluntary sales). Loan guarantees are now critical to the

innovative National Housing Trust model but could be used in several different ways, including direct provision from councils, in order to expand affordable finance through lowering risk. Similarly, the successful Highland land bank fund could be usefully expanded.

- All of the UK faces these problems in funding affordable housing. It is hoped that the current process of examining new options and learning lessons from local innovation can be shared in a coherent fashion across the UK. It is also essential that the joined-up nature of affordable housing development, HB reform and private finance is properly understood by those reforming the benefits system.

Notes

Chapter 2

1 HB cuts include: caps on the maximum assistance available; reductions in HB by 10 per cent for those unemployed for more than a year; a less generous local housing allowance in the private rented sector; and plans to limit HB to the 'single room rent' for single people below the age of 35, i.e. by assuming that single people are sharing in a bedsit or HMO (Homes in Multiple Occupation).

2 Statistics on UK house prices released by Lloyds Halifax for October 2010 suggest prices have resumed a sharp negative path. However, this is of course only one month's data from one lender.

3 The Scottish Government has additionally recently pledged to make all prescription charges free.

Chapter 3

1 This is a simplification: we acknowledge that elements of the national allocation may be ring-fenced for specific local needs wherever they apply, such that the local government that receives the funding does not have discretion over how that portion is used.

2 Affordability is the HNM indicator based on median prices to income; the homelessness is based on the HNM homeless per 1,000 indicator and deprivation is derived from the same 2009 deprivation indicator.

3 This indicator expresses the number of homeless households accepted by local authorities per 1,000 households. In Scotland, it represents (eligible, priority) + (eligible, not priority) + (not recorded as having been housed, or outcome unknown).

4 In Scotland, this indicator is a ratio of the mean house price to mean level of household earnings.

5 Null or unweighted indicators; using expert criteria; referring to the literature; basing weights on opinion surveys; the explicit modelling of the weights; or, aligning the weights to strategic organisational priorities.

Chapter 4

1 There is far less attention paid to proposals to convert the existing stock or to make more intensive use of empty properties. While this may reflect the relative scale of the potential of these proposals compared with the level of unmet need, as well as mixed experience of effectiveness, it is also indicative of the presumption that new supply is the standard solution to unmet need.

2 The criteria involve: budgetary cost and the level of risk to the public sector; the potential scale and deliverability of each initiative and the extent to which each would help meet housing need; the likely length of time required to deliver new or refurbished homes; the initiative's contribution to the Scottish Government's purpose of securing sustainable economic growth; and, any benefits associated with other government priorities such as tackling climate change.

3 Based on micro simulations from a sample of housing associations, Bramley *et al*. (2010) also estimate an average annual financial capacity figure of approximately 3,900 units per year for Scottish housing associations, and this would cost close to 100 per cent of the current core annual investment programme.

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Appendix

Table A1: Selected measures of deprivation

Local authority	% of population in LAD that are in 15% most deprived data zones	% of LAD data zones that are in the 15% most deprived data zones	% of house-holds that receive Housing Benefit (January 2010)	Median net equivalised household income before housing costs (2007–08)	% of house-holds in relative poverty (2005–08)	Working age inactivity rates (% of working age) (2007–09)
Aberdeen City	8.9	10.1	15	23,800	15	17.6
Aberdeenshire	1.9	2.0	10	25,600	16	15.2
Angus	5.8	5.6	17	20,100	20	18.1
Argyll & Bute	7.0	8.2	16	20,200	20	19.2
Clackmannanshire	23.6	23.4	22	22,500	18	22.3
Dumfries & Galloway	5.8	5.7	17	19,400	22	18.1
Eilean Siar	0	0	12	19,200	25	18.8
Dundee City	28.9	29.6	27	18,900	24	22.8
East Ayrshire	18.0	18.2	24	20,600	18	21.4
East Dunbartonshire	2.2	2.4	10	25,000	16	17.4
East Lothian	0.9	0.8	16	21,400	20	19.7
East Renfrew	2.2	2.5	10	23,600	14	20.9
City of Edinburgh	11.4	11.5	18	22,900	19	20.9
Falkirk	8.8	9.6	19	21,600	20	19.5
Fife	10.0	10.4	19	20,300	21	19.3
Glasgow City	46.7	47.6	32	19,000	23	29.3
Highland	5.6	5.8	15	22,300	17	13.3
Inverclyde	36.4	38.2	25	19,900	21	23.9
Midlothian	4.8	4.5	18	21,100	16	15.1
Moray	0.0	0	14	21,100	21	15.0
North Ayrshire	18.0	18.4	25	19,400	23	24.1
North Lanarkshire	19.5	20.1	23	20,500	20	18.7
Orkney Islands	0.0	0	10	21,900	21	*
Perth & Kinross	4.2	5.1	13	22,800	16	18.6
Renfrew	15.4	16.8	22	22,000	17	19.8
Scottish Borders	2.1	2.3	16	21,200	18	16.4
Shetland Islands	0.0	0	11	22,500	15	*
South Ayrshire	8.7	8.8	19	20,700	22	20.3
South Lanarkshire	13.6	14.1	20	21,200	20	20.6
Stirling	5.7	6.4	15	21,900	18	18.8
West Dunbartonshire	27.2	28.0	29	19,400	20	24.3
West Lothian	6.0	6.6	20	21,900	16	20.1
Scotland	14.8	15.0	20	21,300	19	20.4

Sources: Scottish Government (2010c); Scottish Government (2010d); Futureskills Scotland website (accessed 25 August 2010); Scottish Government Housing Statistics website: http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS (sourced 6 September 2010)

Table A2: Housing pressure

Local authority	Mean house price (June 2010) Registers of Scotland	Afford-ability HNM indicator	Home-lessness HNM indicator	Households to dwellings balance HNM indicator	Popula-tion (2008–09)	All social housing comple-tions (2009–10) per 1000 population (2008–09)
Aberdeen City	180,736	4.44	709	0.927	210,400	0.45
Aberdeenshire	210,994	3.95	342	0.948	241,460	1.91
Angus	150,076	3.8	408	0.938	110,310	0.71
Argyll & Bute	144,522	4.29	107	0.897	90,500	0.31
Clackmannanshire	123,917	3.97	158	0.963	50,480	1.27
Dumfries & Galloway	144,121	4.64	188	0.947	148,580	0.59
Dundee City	137,554	3.73	66	0.939	142,470	0.639
East Ayrshire	120,008	3.51	104	0.957	119,920	1.72
East Dunbartonshire	190,766	4.45	88	0.984	104,720	0.25
East Lothian	211,622	5.58	284	0.959	96,100	0.84
East Renfrew	193,122	4.76	110	0.966	89,220	1.33
City of Edinburgh	213,603	5.6	572	0.944	471,650	1.02
Eilean Siar	106,365	*	47	0.843	26,200	1.49
Falkirk	118,088	3.99	256	0.967	151,570	0.71
Fife	147,021	4.09	1,039	0.953	361,890	0.43
Glasgow City	131,600	4.75	1,571	0.941	584,240	1.58
Highland	159,046	5.64	419	0.902	219,400	1.68
Inverclyde	122,954	3.71	215	0.938	80,780	4.16
Midlothian	166,395	5.72	140	0.987	80,560	2.09
Moray	154,518	4.27	208	0.936	87,770	0.93
North Ayrshire	114,062	3.46	219	0.942	135,920	0.72
North Lanarkshire	108,457	3.81	791	0.977	325,520	0.75
Orkney Islands	97,955	*	20	0.912	19,890	1.81
Perth & Kinross	177,326	4.59	236	0.945	144,180	2.29
Renfrew	130,889	3.66	101	0.957	169,800	0.64
Scottish Borders	158,780	4.31	115	0.928	112,430	0.30
Shetland Islands	118,325	*	22	0.924	21,980	3.18
South Ayrshire	156,439	3.82	66	0.959	111,670	2.08
South Lanarkshire	129,016	3.79	450	0.959	310,090	1.06
Stirling	163,759	5.15	173	0.969	88,350	0.747
West Dunbartonshire	111,732	4.09	134	0.937	90,940	0.86
West Lothian	140,636	4.6	338	0.979	169,510	1.79
Scotland	**155,491**				**5,168,500**	**1.145**

Sources: Local Authority Housing Bulletin, August (CHMA, 2010b); Scottish Local Government Financial Statistics 2008–09 (National Statistics, 2010); Scottish Government (2009); CHMA (2010a); JRF HNM database; Scottish Government Housing Statistics website (accessed 6 September 2010)

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