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# Affordable Housing Supply Funding

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This briefing provides information on the Scottish Government's Affordable Housing Supply Programme. It includes information on the budget, and how the programme is managed. It also considers progress towards the Scottish Government's target to deliver at least 50,000 affordable homes over the five-year period 1 April 2016 to 31 March 2021.



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# Executive Summary

The Scottish Government aims to spend over £3 billion to deliver at least 50,000 affordable homes from 1 April 2016 to 31 March 2021. Funding for affordable housing is available through the Affordable Housing Supply Programme (AHSP). This forms part of the Scottish Government's *More Homes Scotland* overarching approach to support the increase in the supply of homes across all tenures.

## Affordable Housing Supply Programme Budget

Since 2014/15, the AHSP budget has been increasing. For 2018/19, the AHSP budget is £756m, an increase of 28% from the previous year (£591m).

Most of the AHSP is delivered through grant funding to social landlords, either Registered Social Landlords (RSLs) or councils. However, loans and guarantees are also used to support the development of affordable housing.

## Type of housing funded under the Affordable Housing Supply Programme

There is no overall definition of what 'affordable' housing means, but for the purposes of the AHSP it includes, housing for:

- social rent provided by registered social landlords (RSLs) and councils
- mid-market rent (housing with higher rents than social rented housing, but lower than the equivalent market rent)
- affordable home ownership

In practice, most of the housing delivered through the AHSP is new build social rented housing built by councils or RSLs. However, in recent years, mid-market rent has accounted for a growing part of the programme.

## Local Programmes

Most of the AHSP is delivered through local programmes planned by local authorities. Local authorities use their 3 year Resource Planning Assumption (RPA) from the Scottish Government to prepare Strategic Housing Investment plans (SHIPs) for their areas. These plans are the key documents for identifying strategic housing projects to assist the achievement of the 50,000 homes target.

## National Programmes

The Scottish Government also manages some national programmes through the ASHP. These scheme include;

- the Open Market Shared Equity Scheme which helps first time buyers to buy new homes;
- the Home Owners Support Fund aimed at helping those struggling to pay their mortgage and
- new initiatives such as the Rural Housing and Islands Fund.

Other innovative projects have been, and are being, developed by the Scottish Government with the aim of achieving greater efficiencies in the use of Scottish Government subsidies. Initiatives like the Local Affordable Housing Rent Trust is an example of such innovation.

### **Affordable housing supply targets**

Over the period 1 April 2016 to 31 March 2021, the Scottish Government aims to deliver at least 50,000 affordable housing units, of which 70% (35,000) will be for social rent.

The 50,000 target represents a substantial increase, of 67%, from the previous five year period's target of at least 30,000 affordable homes (of which 20,000 were for social rent). The 30,000 target was exceeded - in the end 33,490 units were delivered.

### **Debate about affordable housing supply**

There is a consensus amongst housing organisations and political parties that the supply of affordable housing needs to be increased. Organisations, such as the Scottish Federation of Housing Associations (SFHA) have welcomed the Scottish Government's increased budget and targets, particularly in relation to new social rented houses.

Given the substantial increase in the target, a key challenge will be getting the housing delivered. Organisations have cited some challenges that could affect how many houses are built. These include, for example:

- infrastructure problems, such as inadequate sewerage capacity;
- delays in the planning system;
- access to a good supply of land;
- capacity of the building industry, in terms of skills, labour and materials;
- in rural areas, a relatively small contractor base may mean that achieving economies of scale can be difficult;
- the capacity of local authority and housing association staff to cope with the scaling up of the target. In this respect, some housing associations are working together to share staff development expertise.

There has also been some suggestion that there are particular challenges with developing new specialist housing e.g. to meet the needs of wheelchair users and housing in some rural areas.

The Scottish Government's *More Homes* approach includes other actions to address some of these issues including dedicated funds to address infrastructure problems. Planning reform is also underway through the current Planning (Scotland) Bill. However, it will take some time for the practical impact of these reforms to become apparent.

Recently published research, commissioned by Shelter Scotland, SFHA and the Equality and Human Rights Commission in Scotland, analysed local authority Strategic Housing Investment Plans plans. The research concluded that the 50,000 target was capable of being met and that this would result in a net increase of around 25,000 new homes to Scotland's social housing stock. However, it also stated that it is not easy to tell whether

the right homes had been built in the right places and called for more detailed investigation into this.

### **Other Housing Supply Funding**

The AHSP is part of the Scottish Government's More Homes Budget line. The More Homes budget also funds other activities to increase housing supply. The main area of expenditure is the Help to Buy (Scotland) Affordable Homes New Build Scheme. This supports individuals to buy a new build home from a participating developer. The budget for this in 2018-19 is around £50m. Homes purchased under this scheme are not counted towards the Scottish Government's Affordable Housing Supply targets.

Other innovative ways of funding housing supply are being taken forward by the Scottish Government. This includes a charitable bonds and a Build to Rent Rental Income guarantee scheme.

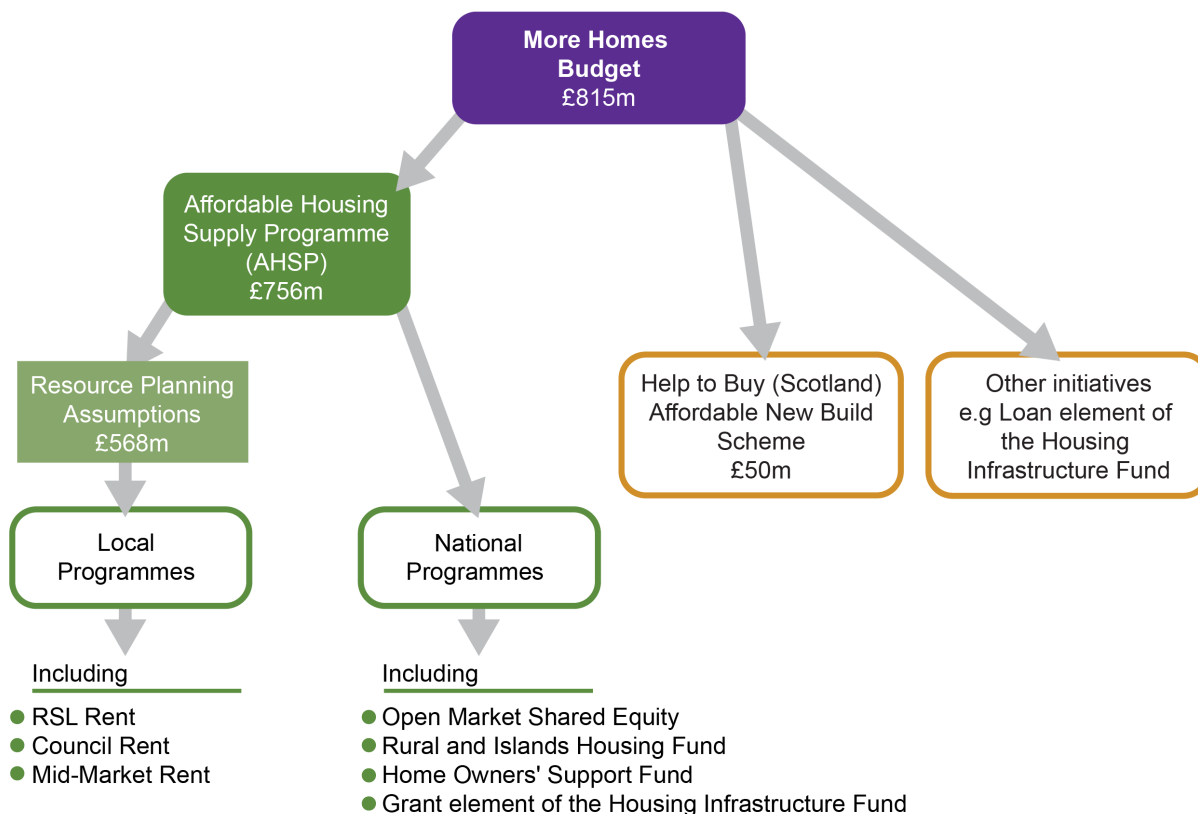
# Affordable Housing Supply Programme overview

The Affordable Housing Supply Programme (AHSP) forms part of the Scottish Government's More Homes Scotland approach to support the increase in the supply of homes across all tenures. Around £3bn of public investment is planned to support the Scottish Government's target of delivering at least 50,000 affordable homes over five years.

As diagram 1 shows, the AHSP is part of the More Homes Budget line. Most of the AHSP is devoted to local programmes devised by local authorities. The Scottish Government also manages some national programmes funded through the AHSP.

Any new housing funded under the AHSP counts towards the 50,000 affordable homes target. Any units funded by the broader homes budget outwith the AHSP, does not count towards the 50,000 target.

**Figure 1: Scottish Government More Homes Budget 2018-19**



Source: SPICe based on Scottish Government data. Scottish Government, 2017<sup>1</sup> Scottish Government, 2018<sup>2</sup> Note that a small proportion of funding for national programmes is contained in the resource planning assumptions

## Affordable Housing Supply Programme budget.

Table 2 shows the AHSP budget over the last three years. **In 2018/19, the budget is £756m, an increase of 28% from the previous year.** <sup>3</sup> From the [future resource planning](#)

[assumptions](#), it can be assumed that the budget will be at least £591m in 2019/20 and £630m in 2020/21.

**Table 2: Affordable Housing Supply Programme Budget 2016/17 to 2018/19**

	2016/17	2017/18	2018/19
Affordable Housing Supply Programme Budget	£572m	£591m	£756m

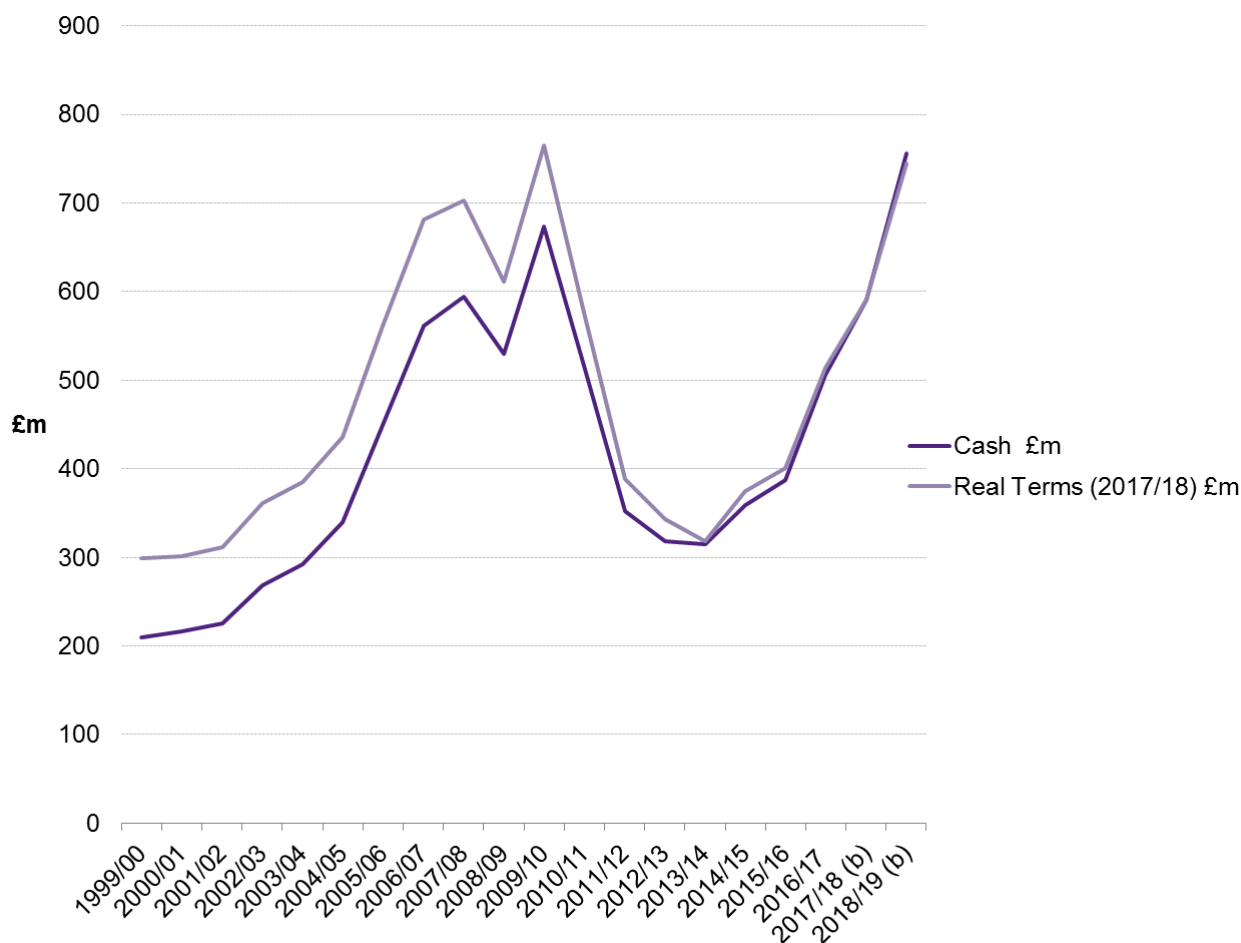
Source: Scottish Government, 2017<sup>4</sup> (note these are the budgets at the start of the year, in-year adjustments can be made to the budgets) Scottish Government, 2017<sup>3</sup>

Figure 2 shows the actual spend on the AHSP (and previous equivalent programmes) since 1999/00, in both cash and real terms (2017/18 prices), and the budget for 2017/18 and 2018/19.

AHSP spending peaked in 2009/10 and then fell steeply over the next two years. This was partly related to a re-profiling of the three year spending review period (2008/09 to 2010/11) in response to the economic downturn. £120m of planned spending was brought forward from 2010/11 into 2008/09 (£40m) and 2009/10 (£80m) as part of the Economic Recovery Programme.<sup>5</sup> From 2014/5, spending began to rise again.

**Spending on the Affordable Housing Supply Programme has increased over the last few years.**

**Figure 2: Affordable Housing Supply Programme expenditure 1999/00 to 2016/17 and budget 2017/18 to 2018/19**



Source: 1999/00 to 2013/14 Information supplied by Scottish Government officials, October 2014 Scottish Government, 2016<sup>6</sup> Scottish Government, 2017<sup>7</sup> Scottish Government, 2017<sup>4</sup> Cash terms calculated using SPICe [inflation tool](#) Scottish Government, 2018<sup>8</sup>

## Out-turn reports

Since 2008-09, the Scottish Government has published ASHP out-turn reports, which provide a range of useful information. For example, information on budgets, expenditure by category, scheme grant costs and grant rates. Some information is provided by local authority, including what was spent and delivered in each local authority area. The reports can be accessed on the Scottish Government [website](#).

The reports tend to be published in January/February each year, around ten months after the financial year end. The latest [out-turn report](#) covers the year 2016/17 <sup>9</sup>.

The 2016/17 out-turn report notes that the budget for the AHSP in 2016/17, following in-year adjustments, was £550.8m. The total amount spent, as noted in the report, was £505.7m, excluding further [financial transaction](#) spend of £19.950m, and resulting in around £25m less than originally budgeted being spent. The underspend was due to less than anticipated take-up of grants in the central programme and loans from the demand led programme. The Scottish Government took mitigating action to minimise the



underspend, for example, an additional £16m was reallocated to local authorities for the local programme.<sup>i</sup>

## Grants and Financial Transactions

The AHSP is composed of a mix of grant funding and 'Financial Transactions' funding. In recent years, the Scottish Government has received Barnett consequentials resulting from a range of UK Government housing-related equity/loan finance schemes.

The Scottish Government has to use these funds to support equity/loan schemes beyond the public sector, but has some discretion in the exact parameters of those schemes and the areas in which they will be offered.

The Financial Transaction funding will ultimately be repaid to HM Treasury, probably over a period of around 30 years, reflecting the long term nature of the support involved. Grants, on the other hand, do not have to be repaid.

In 2018/19, around 81% (£615m) of the ASHP is grant funding (including TMDF grant for both City of Edinburgh Council and Glasgow City Council), while 19% (£141m) is Financial Transaction funding.<sup>2</sup>

## Affordable Housing Supply Programme - type of housing funded

The AHSP funds a variety of schemes to help the supply of "affordable housing." There is no overall definition of what "affordable" housing means. But, for the purposes of the ASHP it includes housing for:

- **social rent** provided by registered social landlords (RSLs) and councils
- **mid-market rent** (housing with higher rents than social rented housing, but lower than the equivalent market rent)
- **affordable home ownership**

## Management of the Affordable Housing Supply Programme

The AHSP is managed by the Scottish Government through a network of area offices, supported by a central investment co-ordination unit. The Scottish Government manages both **national** programmes and local programmes with the majority of the budget allocation going to local authority areas to develop **local programmes**.

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<sup>i</sup> Personal communication with Scottish Government officials

Under the Transfer of Management of Development Funding (TMDF) arrangements, Glasgow City Council and the City of Edinburgh Council manage the development programme in their areas on behalf of the Scottish Government.

# Local Programmes

Most of the AHSP is comprised of grant funding for local programmes developed by local authorities.

Local authorities have strategic housing responsibilities for their areas. They are required, by section 89 of the Housing (Scotland) Act 2001, to prepare a local housing strategy for their area supported by housing need and demand assessments (HNDAs) which are undertaken every five years. Scottish Government prepares guidance on HNDA and undertakes an appraisal of local authority HNDAs to ensure they are 'robust and credible'. The Scottish Government also encourages local authorities to update their HNDAs annually.

## Strategic Housing Investment Plans

Given their strategic housing role, local authorities are responsible for preparing Strategic Housing Investment Plans (SHIPs) for their areas. These are operational documents that set out investment priorities for affordable housing over a 5 year period to achieve the outcomes set for the local housing strategy. They are also the key documents for identifying strategic housing projects to assist the achievement of the Scottish Government's 50,000 affordable homes target.

Scottish Government guidance<sup>10</sup> indicates that SHIPs should:

- Set out investment priorities for affordable housing;
- Demonstrate how these will be delivered;
- Identify the resources required to deliver these priorities;
- Enable the involvement of key partners.

SHIPs are submitted to the Scottish Government on an annual basis. The Scottish Government then conduct a 'light touch' review of each SHIP to satisfy themselves that the proposals are deliverable and align with national and local priorities.<sup>11</sup>

Recently published [research](#) on SHIPs, commissioned by Shelter (Scotland), SFHA and the Equality and Human Rights Commission Scotland, found that there was strong support for the process by which housing programmes are delivered. The research found that SHIPs vary a lot in what they cover and they would benefit from being more explicitly linked to strategic aims.

SHIPs are working documents and plans can be subject to change. To illustrate this, the research includes case studies which shows the process by which the actual housing delivered can change from what was planned.<sup>11</sup>

## Strategic Local Planning Agreements

SHIPs are used by the Scottish Government to draft Strategic Local Planning Agreements (SLPAs) to be agreed with local authorities after discussion with local delivery partners. SLPAs set out the programme of housing projects that will be funded over the next 3 years and are reviewed at least annually.

Under the Transfer of Management of Development Funding arrangements, Glasgow City and Edinburgh councils draft their own SLPAs for agreement with the Scottish Government.

### Housing delivered through local programmes

The Scottish Government expects that the majority of homes delivered through the local programmes will be new build units delivered by local authorities or RSLs or through "off the shelf" purchases from developers. However, in certain circumstances grant funding may be available for purchasing existing stock on the open market or to remodel/rehabilitate existing properties where this is considered a strategic priority.<sup>12</sup>

## Resource Planning Assumptions

The Scottish Government gives each local authority a Resource Planning Assumption (RPA) based on need through the Strategic Housing Investment Framework (SHIF). This needs-based formula, agreed with COSLA in 2012, takes account of affordability, deprivation, rurality and homelessness.<sup>13</sup>

SHIF applies to the 30 councils receiving RPAs through the Scottish Government's affordable housing supply budget. The resources for the City of Edinburgh Council and Glasgow City are calculated separately.

In June 2017, the Scottish Government announced the indicative three-year RPAs 2018/19 to 2020/21, to help councils develop their longer terms plans for housing (see Table 3). On 30 April 2018, the final RPAs for 2018/19 were announced. These were around £35m more than previously announced. A local authority breakdown of the RPA's is available [online](#).

Although the total figure for the AHSP for 2019/20 onwards is not yet known, it is clear that there will be a substantial uplift in the resources available for local programmes. From 2017/18 to 2020/21, total local authority RPAs are planned to increase by 49%.

**Table 3: Local Authority Resource Planning Assumptions 2017/18 to 2020/21**

Year	£m
2017/18	422.6
2018/19	568.1
2019/20	591.6
2020/21	630.2

Source: Scottish Government, 2017<sup>9</sup> Scottish Government, 2018<sup>2</sup>

Throughout the year, money can be reallocated within the programme depending on local authorities' ability to spend the money in that financial year. For example, the [2016/17 out-turn report](#) shows that ten local authorities spent more than their RPA, while 22 spent less than their RPA.<sup>8</sup>

## Scottish Government grant subsidy levels

The Scottish Government provides grant subsidy to social landlords to build new homes and social landlords fund the remainder of the costs. Normally, most of the extra cost is funded through borrowing, either prudential borrowing by local authorities or private finance by RSLs. Other sources of funding include:

- money raised through council tax on second homes
- developer contributions from affordable housing planning policies
- charitable bond funding instead of AHSP resources

The Scottish Government publishes indicative subsidy benchmark levels at which RSLs and councils are expected to develop new homes.

If the Scottish Government's subsidy levels are inadequate, social landlords may find it difficult to make new developments financially viable. For example, the cost of any extra private borrowing would have to be paid for by rental income and this could result in rent increases beyond what might be considered an affordable level for tenants.

A key message from the Scottish Housing Regulator over the last few years, in light of continued above inflation rent rises by RSLs, is that social landlords must consider how affordable their rents are for their tenants.<sup>14</sup>

### Grant Subsidy Benchmarks

Table 4 outlines the current subsidy benchmarks. The subsidy benchmarks were increased in 2016, following the work of the [2015 Subsidy Working Group](#)<sup>15</sup> which identified some cost pressures.

Higher levels of subsidy are available for RSLs that meet the 'greener standard' or are in rural areas. For councils, there is no geographical variation in the benchmarks, although a slightly higher subsidy is available for developments that meet the greener standard.

A level of flexibility exists within the subsidy framework so that projects requiring higher subsidies can potentially be approved by the Scottish Government.

**Table 4: Scottish Government Subsidy Benchmarks (based on 3 person equivalent benchmarks unless otherwise stated)**

	West Highland, Island authorities and remote and/or rural Argyll	Other rural	City and urban
RSL social rent- greener	£84,000	£74,000	£72,000
RSL social rent-other	£82,000	£72,000	£70,000
RSL mid-market rent - greener	£46,000		
RSL mid-market rent - other	£44,000		
Council social rent - greener	£59,000 (flat rate benchmark for council properties)		
Council rent social - other	£57,000 (flat rate benchmark for council properties)		

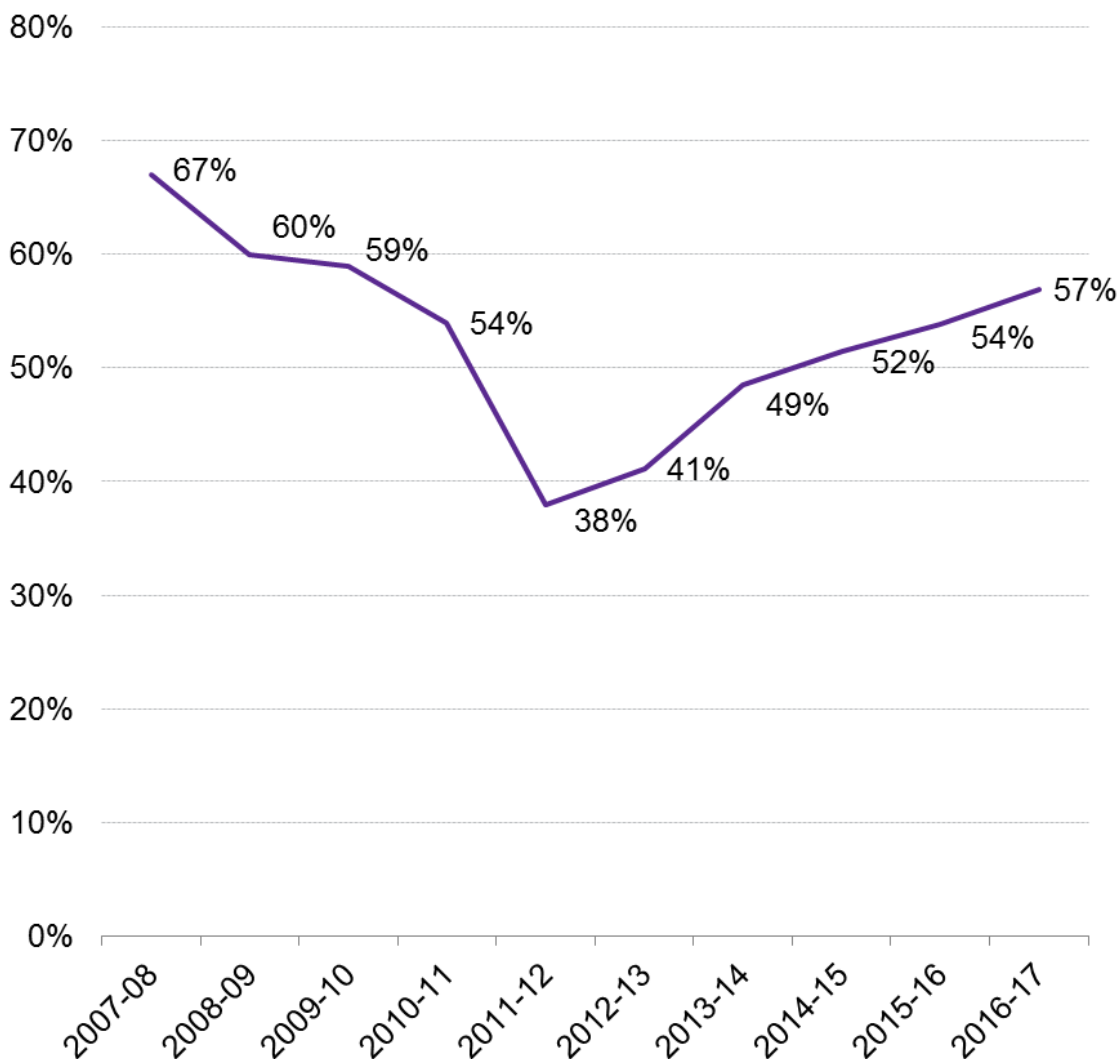
Source: Scottish Government, 2017<sup>12</sup>

### Level of grant subsidy

In 2016-17, on average it cost RSLs around £130k to build a new social rented property. Scottish Government subsidy accounted for around 57% (£74k) of this cost.<sup>8</sup> The Scottish Government does not publish an equivalent figure for council new builds.

**Subsidy rates have been increasing since 2011/12 but are still lower than in 2007/08**

**Figure 3: Scottish Government affordable housing grant subsidy rate for RSL social rented properties 2007/8 to 2016/17**



Source: Scottish Government, 2016<sup>16</sup>

### The greener standard

To qualify for higher subsidy for greener standard housing, the building standards for the new homes must meet Section 7, Silver Level, of the 2011 Building Regulations in respect of both Carbon Dioxide Emissions and Energy for Space Heating.

During 2016/17 a total of 3,162 (44%) out of 7,110 approvals for RSL/Council House/Mid Market Rent new build units included the greener homes standard.<sup>8</sup>

The *Review of Strategic Investment plans for Affordable Housing* found that for Scotland as a whole it is anticipated that seven out of ten social rented starts will attain the greener

standard. However, wide variations between local authorities were noted with seven local authorities, mainly those that extend over rural and remote areas, suggesting that no new starts will meet the greener standard. As the research indicated:

“ Stakeholders told us that as unit grant rates currently stand, the additional costs of attaining this standard are prohibitive. In particular, we heard the additional costs are prohibitive for smaller RSLs and rural RSLs that have seen the cost of securing private finance rise in recent years.”

Young, 2018<sup>11</sup>

### **Different subsidy levels for councils and RSLs**

In December 2017, COSLA submitted evidence to the Local Government and Communities Committee's 2018-19 pre-budget scrutiny. Its evidence expressed some concern about the lower subsidy benchmark in place for councils. COSLA outlined the arguments made for the different subsidy arrangements, including the different borrowing mechanisms available to RSLs and councils, council land-ownership and councils' increased ability to provide associated utilities and infrastructure. However, COSLA disputed these arguments and indicated that COSLA leaders had agreed, earlier in 2017, that this issue should be revisited at a later date.<sup>17</sup>

When Committee members questioned the Minister for Local Government and Housing, Kevin Stewart MSP, about this, the Minister indicated that he was not going to reconsider subsidy levels at this moment:

“ the reason for the differential is that local authorities can borrow at much cheaper rates than housing associations. If I were to open up that can of worms and try to renegotiate subsidy levels again—which I am not going to do—we would probably spend more time arguing about those subsidies instead of getting on with the job of delivering houses across Scotland. As I have said to the committee, I am willing to be flexible on a number of issues...”

Scottish Parliament Local Government and Communities Committee, 2017<sup>18</sup>

# National Programmes

The Scottish Government also manages a number of national programmes through the Affordable Housing Supply Programme. Over the last ten years or so there has been an emphasis on developing "innovative" schemes, in light of the need to achieve efficiency in the use of Scottish Government resources.

The national programmes include:

- **Open Market Shared Equity Scheme:** this is a fairly well established scheme which allows first time buyers to purchase a property on the open market with the government taking an equity stake. Priority access is given to applicants who live in social rented housing, disabled people, members of the armed forces and veterans. This is a demand led scheme - £66m was spent in 2016/017. <sup>7</sup> Up to £70m was made available in 2017/18 and again in 2018/19. From 1 April 2016 to the end of June 2017, 2,435 households have been helped under this scheme. <sup>19</sup>

- **Housing Infrastructure Fund:** The Scottish Government launched a five-year Housing Infrastructure Fund (HIF) in February 2016. The aim is to help key strategic housing projects which have been blocked or unable to proceed due to the extent and costs/financing of infrastructure works involved. The fund comprises two main elements:

- infrastructure grant available to local authorities and RSLs to support affordable housing delivery - this funding comes from the AHSP.
- infrastructure loans available to non-public sector organisations. This loan element is included within the broader More Homes budget.

The scheme is demand led and various eligibility criteria are in place. Local authorities are expected to identify relevant sites in their SHIP. In 2016/17 around £9m of grant was spent. <sup>7</sup> Available budgets for 2018/19 have not been published.

- **Rural Housing Fund and Islands Housing Fund** : Both funds run over the period 2016-2021 and aim to increase the supply of affordable housing of all tenures in rural Scotland. Over the five year period, the Rural Housing Fund has a budget of £25m while the Islands Housing Fund has a budget of £5m. In 2016-17, £0.134m was spent on the Funds. <sup>8</sup> The fund has two parts:

- a main fund that offers capital support (grants and loans) for direct provision of new affordable housing, and refurbishment of existing empty properties
- a small fund that contributes to feasibility studies

- **Home Owners' Support Fund:** this fund supports owners who are experiencing difficulty in paying their mortgage. It accounts for small proportion of the budget. Just under £3m was spent in 2016/17. <sup>8</sup> From April 2016- end June 2017, there were 87 completions from this scheme. <sup>20</sup>

- **Local Affordable Housing Rent Trust (LAR)** is a Scottish charity set up to provide long-term, mid-market rented housing in Scotland. The Scottish Government has



given LAR a 25 year £55m loan facility. Combined with private investment this funding is expected to deliver around 1,000 homes. Housing in various parts of the country including in East Lothian and Aberdeen have been developed by the charity.

- **Mid-Market Rent Invitation:** In February 2016, the Scottish Government launched a Mid-Market Rent invitation seeking bids for proposals to deliver affordable Mid-Market Rent homes at scale by 2021. “At scale” is expected to mean that a proposal will cover more than one local authority area and involve several sites, delivering between 500-1,000 units in total. Homes will be available to tenants for around 25 years. The Scottish Government is currently carrying out an assessment of the proposals received.
- **Self-Build Loan Fund:** On 8 November 2017, the Scottish Government [announced](#) that a new £4m self-build loan fund offering financial backing to people who want to build their own homes will be available from autumn 2018. <sup>21</sup>

# Affordable Housing Supply Targets

The outputs the Scottish Government hopes to achieve from its AHSP are set out in its affordable housing supply targets.

The current target is to **deliver at least 50,000 affordable homes over the period 1 April 2016 to 31 March 2021**. This represents a substantial (75%) increase from the previous 5 year target(see Table 5).

Over the previous five year period, 1 April 2011 to 31 March 2016, the Scottish Government committed to deliver at least 30,000 units, of which 20,000 would be for social rent. This target was exceeded, 33,490 units were completed (of which 22,523 were for social rent).<sup>19</sup> However, there had been some criticism that the initial targets were not ambitious enough.<sup>22</sup>

**Table 5: Affordable Housing Supply Targets: Number of Units to be delivered**

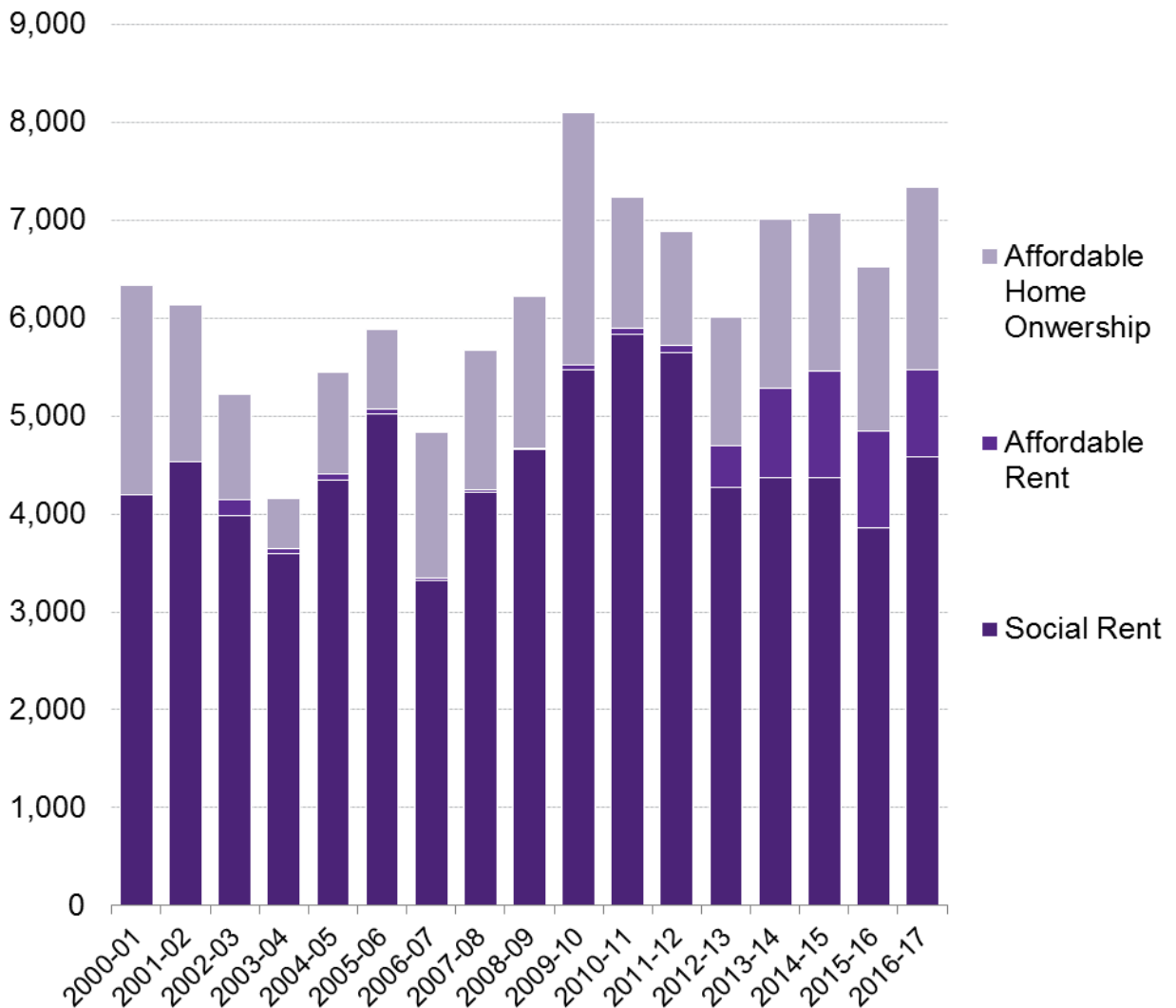
	1 April 2011 to 31 March 2016	1 April 2016 to 31 March 2021	Increase
<b>Total</b>	<b>30,000</b>	<b>50,000</b>	<b>67%</b>
<b>Of which social rent</b>	<b>20,000</b>	<b>35,000</b>	<b>75%</b>

These housing supply targets are measured by the Scottish Government AHSP completion statistics which include all the affordable housing activity funded by the AHSP including new builds, off-the shelf purchases and rehabilitations. It also includes units for the Home Owners' Support Fund. The statistics are available on the Scottish Government [website](#).

## Affordable Housing Supply Completion Trends

Figure 4 shows the total number of affordable housing units, funded through the AHSP completed each financial year since 2000/01.

Over the 17 year period 2000/01 to 2016/17, an average of 6,238 units have been completed each year. A record number of completions (8,092) were achieved in 2009/10. This peak can be partly explained by the [re-profiling of the three year](#) spending review period as explained above.

**Figure 4: Affordable Housing Supply Programme Completions by type 2000/01 to 2016/17**

Source: Scottish Government Affordable Housing Supply [tables](#)

Figure 4 also shows that, over the last parliamentary session, there was a rise in the number of “affordable rent” properties completed (which includes mid-market rent and those funded through the National Housing Trust Initiative) and a reduction in the number of social rent properties completed. Affordable rent properties have a lower subsidy level than the traditional funding of RSL and council new builds for social rent.

However, given the increased funding and targets, social rent completions may be expected to rise over the next few years.

## Progress towards the 50,000 target

Achieving the 50,000 target requires an average of 10,000 completions each year, well above the numbers completed in the last few years. However, given the profile of the budget (which will increase over the years), it would be expected that progress toward the target would increase in the later years of the programme.

In the first full year of the five year target, 2016/17, there were 7,336 completions, of these 4,580 were for social rent.<sup>19</sup>

The latest quarterly statistics show that overall from April 2016 to end December 2017, there were 11,758 completions. Table 6 shows around 59% of completions are social rent, 29% affordable home ownership and 12% are affordable rent.<sup>19</sup>

The statistics also indicate that around 62% (7,280) are new builds, 31% (3,653) are off-the shelf purchases and 7% (825) are rehabilitations.<sup>19</sup>

**Table 6: Affordable Housing Supply Completions April 2016 to end December 2017**

Type of Activity	Completions
Social Rent	6,874
Affordable Rent	1,464
Affordable home ownership	3,420
<b>Total</b>	<b>11,758</b>

Source: Scottish Government [Affordable Housing Supply Tables](#)

## Can the target be met?

Given the time that it takes to complete a new build, a good indicator of progress towards the target will be the number of new start over the next few quarters.

Over recent years, it is estimated that it can take between 1 to 2 years from approval to completion of an entire new build AHSP site (of which the first 3 to 4 months would typically be the time period from approval to starting). Individual homes, or blocks of homes, might be completed in shorter timescales if parts of the site are completed in advance of the rest.<sup>20</sup>

The research report [Review of Strategic Investment Plans for Affordable Housing](#) , analysed local authority SHIPs prepared in 2016. While the report recognised there was some uncertainty in the estimates, it concluded that:

“ As it stands, delivery of affordable homes from April 2016 to March 2021 is estimated at between 45,387 and 49,773, with up to 34,850 being socially-rented. So the target of 50,000 and 70% socially-rented is capable of being reached, albeit there may be some optimism built into the estimates. A programme of this scale could potentially raise the social housing stock from just under 595,000 in 2017 to between 618-620,000 by 2021, a net rise of up to 25,000 once demolitions, conversions and other attrition is allowed for.”

Young, 2018<sup>11</sup>

Despite this, the report raised some further areas for investigation in relation to where and [what type of housing was being delivered](#).

# Challenges in meeting the target

There is a consensus amongst housing organisations and political parties that the supply of affordable housing needs to be increased. Organisations, such as the Scottish Federation of Housing Associations (SFHA) have welcomed the Scottish Government's increased budget and the increased targets, particularly in relation to new social rented houses.

Given the substantial increase in the affordable homes target, there needs to be a significant increase of development activity. Organisations have cited some challenges that could affect how many houses are built. The Chartered Institute of Housing Scotland recently warned that there was no room for complacency in meeting the target and that, "any failure to achieve the 50,000 target will not be for lack of funding."<sup>23</sup>

Specific challenges will vary between areas. They could include, for example:

- **Infrastructure problems**, such as inadequate drainage, poor ground conditions and inadequate road access. These may be particularly problematic in brownfield sites or in rural areas and remote sites. The high upfront capital costs of infrastructure can make smaller sites unviable.<sup>11 24</sup>
- **Access to land, of the right type, in the right places.** In some areas there may be an insufficient supply of land that can be effectively used. For example, in some rural areas land may be allocated for housing but it may be in control of a small number of landowners or developers who are not bringing the land forward due to price expectation and other reasons.<sup>24</sup>
- **Planning System.** in some cases there can be delays in the planning system, for example where there is a need to clarify information. In some rural areas there is a perception that planning rules are applied too rigidly.<sup>11 24</sup>
- **Capacity of the building industry, in terms of skills, labour and materials.** For example, in rural areas, a relatively small contractor base may mean that achieving economies of scale can be difficult. Some housing associations are also concerned about the potential negative impact of Brexit on the construction workforce.<sup>25</sup>
- **Capacity of social housing providers to increase their rate of development activity.** A report by the Scottish Housing Regulator in 2017 noted that some RSLs which have not developed new housing recently are now taking the decision to start to develop again.<sup>26</sup> However, the capacity of staff in RSLs that have not had a development programme maybe limited. In this respect, some RSLs are working to share services to develop new housing. Similar capacity issues may be experienced by some local authorities. Giving evidence to the Local Government and Communities Committee, the Association of Local Authority Chief Housing Officers (ALACHO) said that councils had been focussing on preserving front-line services which had led to "a thinning out of senior and strategic management within organisations, a reduction in the ability to plan, and a spreading of the focus of many senior officers."<sup>27</sup>

## Right homes? Right places?

Having a target in place will obviously place a focus on the number of houses being delivered. Perhaps more important though is making sure that housing need is addressed by providing the right type of housing in the right locations. However, the 50,000 target is not broken down in this way. The planning processes (as described earlier) are supposed to link the Scottish Government's funding to local housing priorities.

However, some have questioned whether the right type of housing in the right places is being delivered. For example, the Local Government and Communities Committee heard, during their 2018-19 pre-budget scrutiny evidence, that it could be more difficult to develop particular types of homes. These include specialist homes, for example, to meet the needs of wheelchair users, or homes in rural areas.

One of the conclusions from the *Review of Strategic Investment Plans for Affordable Housing*, was that there is, "further work to do on understanding the distribution of those homes, the extent to which that best fits current and future needs and how best to balance the various priorities that a programme of this size seeks to address." <sup>28</sup>

Particular challenges exist in relation to specialist housing and rural housing.

### Specialist housing

In relation to specialist housing, the report argued that:

" There is widespread agreement that the numbers of reported 'specialist housing' falls well below what is required to address the shortage of suitable housing for older people and other equality groups. The reasons for this are complex but one factor is variable progress in developing effective joined up working between Health & Social Care Partnerships, housing and planning. Another factor is the lack of a clear and stable capital and revenue funding framework. Some local authorities are planning to use their own stock capital programme to expand provision but this is not a sustainable strategy for those nearing their prudential borrowing limits or for stock transfer councils."

Young, 2018<sup>11</sup>

Recently published [research](#) commissioned by Horizon Housing Association and the Chartered Institute of Housing found that over 17,200 wheelchair users in Scotland do not have a suitable home and this unmet need is set to increase by 80% by 2024. The report makes recommendations for a three-tier approach to addressing need, which includes; the design and supply of new homes, adaptations and effective allocation of adapted rented housing. <sup>29</sup>

The research makes suggestions as to how local authorities can better assess housing need among wheelchair users in their area, and recommends that the Scottish Government sets a national guideline target that would see 10% of new homes built to wheelchair accessible standards.

In the Scottish Government's *A Fairer Scotland for Disabled People* <sup>30</sup> plan the Scottish Government sets a number of actions aimed at improving the lives of disabled people. Particularly relevant actions are:

“ We will work with local authorities, disabled people, and other stakeholders to ensure that each local authority sets a realistic target within its Local Housing Strategy for the delivery of wheelchair accessible housing across all tenures and reports annually on progress. We will ensure that the grant subsidy arrangements for the Affordable Housing Supply Programme do not prevent specialist housing identified by local authorities as a priority from being built. ”

Scottish Government, 2016<sup>30</sup>

The Scottish Government is currently undertaking work to develop guidance for local authorities on the need to set a realistic target for the delivery of wheelchair accessible housing across all tenures. This will be incorporated into the Local Housing Strategy guidance, which will be reviewed later this year.

### **Housing in rural areas**

Regarding housing in rural areas, there have been questions raised as to how much the AHSP supports the delivery of housing in rural areas.

For example, in 2017 the Rural Housing Service analysed Scottish Government data on rural housing completions (new build and rehabilitations).<sup>31</sup> Its analysis of this data revealed that most of these completions were actually located in small towns and urban areas and not rural areas according to the Scottish Government’s six fold classification of urban/rural areas. Under this classification, rural areas are those with fewer than 3,000 inhabitants (this includes remote rural and accessible rural areas).

In response to a recent parliamentary question, the Minister for Local Government and Housing, Kevin Stewart MSP clarified that the management system for 2016-17 categorised the affordable housing supply programme projects as either ‘urban’ or ‘rural’ and provided figures realigned with the the 6-fold classification.<sup>32</sup>

This information stated, that in 2016/17, 509 completions were in rural areas, within the 6-fold classification (368 in remote remote rural areas and 141 in accessible rural areas). This equates to 7% of all completions (7,336) in 2016-17. A further 124 completions were in remote small towns. The Rural Housing Service argue that rural Scotland, which accounts for around 17% of Scotland's population, is not getting its fair share of investment.<sup>31</sup>

The Scottish Government points out that Scottish Government funding supports the delivery of local housing priorities, as identified in local housing strategies.<sup>32</sup>

A research [report](#) commissioned by Highlands and Islands Enterprise noted that housing supply and affordability are crucial factors in supporting sustainable and inclusive economic and community development and population growth in all parts of the Highlands and Islands. The report made a number of recommendations to stimulate housing development across the Highlands and Islands.<sup>24</sup>

For example, one recommendation centred around changing the assessment of need and demand from one that is based on past trends (which in some areas have been population decline) to one which "reflects the aspirations of communities for growth and development."

### **Grant flexibility**

In previous comments made to the Local Government and Communities Committee, the Minister for Local Government and Housing has emphasised that there are higher subsidies in place for rural areas. Furthermore, there is flexibility in the Scottish Government grant subsidy framework to allow higher cost projects, for example, specialist housing, to be funded.<sup>18</sup> However, it is difficult to assess from the published information how this flexibility is applied in practice.



## Other action to help increase housing supply

The Scottish Government's More Homes approach includes other actions to address some of the challenges to increasing housing supply. This includes a programme of land reform measures and planning reform is also underway through the current Planning (Scotland) Bill. These reforms will take some time for the practical impact to become apparent.

Funding for others schemes to increase housing supply is available. Units completed using these funding streams do not count towards the 50,000 affordable homes target. This funding includes:

- the **Help to Buy (Scotland) Affordable New Build and Smaller Developers Scheme** which assists people to buy a new build property from a participating developer on a shared equity basis. Over the three year period, 2016/17 to 2018/19 the budget is around £195m. In April 2018, the Scottish Government announced that the Help to Buy scheme is to be extended for another two years from April 2019, with a total of £100m being invested over these two years.<sup>33</sup> As this is financial transaction funding eventually it will be paid back to the Scottish Government.
- On 12 October 2017, the Scottish Government announced<sup>34</sup> the launch of a **Rental Income Guarantee Scheme (RIGS)** to boost new investment in the Build to Rent Market. RIGS guarantees 50% of any gap between actual and projected rental income of a development. The aim is to provide investors and landlords with greater certainty of rental income during the initial years of letting. The scheme is operated on the basis of a contingent liability with no budget requirement for capital grant or loan. It is designed to be self-financing over its lifetime with the income from guarantee fees.
- The Scottish Government has invested in **charitable bonds**. The bonds, issued by Allia, a social investment charity, provide a new source of finance for housing associations to build new affordable homes, while interest on the loans provides grants for social homes.

In the [Draft Budget 2018-19](#), the Scottish Government announced the establishment of a new Building Scotland Fund, which will help, "to further accelerate and scale up housing delivery through proven innovative models. It will also promote and support further innovation in both affordable and market housing in future."<sup>1</sup> Further detail of the fund has still to be announced.

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