

REPORT TO: HOUSING, DUNDEE CONTRACT SERVICES AND
ENVIRONMENT SERVICES COMMITTEE -
23 MARCH, 2009

REPORT ON: INVESTMENT IN AFFORDABLE HOUSING :
CONSULTATION RESPONSE

REPORT BY: DIRECTOR OF HOUSING

REPORT NO.: 156-2009

1. **PURPOSE OF REPORT**

- 1.1. To outline the proposed response to the Scottish Government's Consultation Paper "Investing in Affordable Housing".

2. **RECOMMENDATIONS**

- 2.1. It is recommended that Committee agree the proposed response as at Appendix A for submission to the Scottish Government.

3. **FINANCIAL IMPLICATIONS**

- 3.1. None.

4. **MAIN TEXT**

- 4.1. The main theme of "Investing in Affordable Housing" builds on the Government's previous Consultation Paper "Firm Foundations : The Future of Housing in Scotland" [2007] and follows through on the Government's commitment to consult on subsidy for new affordable housing reform.

The paper proposes a "more strategic approach to the allocation of subsidy" by channelling investment finance through a number of lead developer RSLs [Registered Social Landlords] who would specialise in procurement and development functions and would act on behalf of other RSLs.

The intention is to achieve efficiencies in administration, project management and procurement which it is hoped will secure better value for money in providing new affordable housing.

Much of the discussion is covered in the Committee Report No. 504-2008 "Tayside Affordable Housing Partnership", approved by Committee on 26 January, 2009.

The Consultation Paper has implications for RSLs operating locally in that the proposal is to reduce the number of developing RSLs in the Tayside, Forth Valley and Fife areas to as few as one RSL or one consortium of RSLs operating across the combined areas. Other RSLs would retain a management role and remain autonomous organisations.

For Local Authorities the proposals have implications for the standing of Local Housing Strategies, the Strategic Housing Investment Plan and the funding of locally identified housing investment priorities.

The proposed response to the consultation is detailed in Appendix A which answers the twenty-four specific questions raised in the paper. In general terms the response is supportive of the principles of achieving efficiencies and the establishment of lead developer RSLs. However, the response does express concerns at the size of the development areas and the potential for losing a local emphasis on housing investment. Careful consideration has also to be given to the number of lead developers appointed to ensure capacity, capability, financial stability and satisfying local needs is not lost.

Finally, the paper proposed another layer of planning and monitoring of the investment process without clarifying the future of the current systems, both local and national, which has the potential to add to the bureaucracy in the system and lead to inefficiencies.

5. POLICY IMPLICATIONS

- 5.1. This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti Poverty, Equality Impact Assessment and Risk Management. There are no major issues at this time.

6. CONSULTATIONS

- 6.1. The Chief Executive, Depute Chief Executive (Support Services), Depute Chief Executive (Finance), Head of Finance, Assistant Chief Executive and all other Chief Officers have been consulted on this report.
- 6.2. RSLs operating in the Tayside area were consulted at a meeting on 19 February, 2009. RSLs will submit their own response.

7. BACKGROUND PAPERS

- 7.1. Housing, Dundee Contract Services and Environment Services Committee Report No. 504-2008.

ELAINE ZWIRLEIN
DIRECTOR OF HOUSING

FEBRUARY 2009

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No.	Question	Response to Questions
1.	To what extent does our assessment of the current economic situation reflect your assessment?	The assessment of the current economic situation is reasonable but would benefit from more analysis or projection of impacts on housing markets. Stable and planned approach to investment programmes for Housing are required to assist Housing Associations and hence the building industry. Recent approaches to housing funding have led to a large degree of uncertainty, the responses referred to at paragraph 10 are just that and have not reflected a well planned process.
2.	Does the economic situation strengthen or weaken the case for investment reform at this time, and why?	The case for reform is sensible regardless of the economic situation. However there is no hard evidence that the approach proposed will improve efficiency nor is there any suggestion that this evidence will be sought to aid future reviews. The availability of credit, which is a major element of the development programme will not be influenced by the actions proposed. . In the current economic climate there is a likelihood that there will be increased demand for social housing owing to increased re-possession and people being denied access to the market due to the downturn in mortgage lending. An increase in both the AHIP and HAG is required to assist recovery in the market, to give confidence to investors and to meet emerging housing need. At this time caution needs to be exercised in relation to Low Cost Home Ownership (LCHO), as feedback from England is that this type of tenure for RSLs is proving to be hard to move in the current housing market. This Council welcomes the action being taken by the Scottish Government in it's publication "Responding to the Changed Economic Climate, More Action on Housing" issued in January 2009.
3.	Do you agree that local authority Strategic Housing Investment Plans and related strategies should form the basis for identifying investment priorities for periods of up to five years?	Surely the point of the LHS and the SHIP <u>is</u> to identify housing investment priorities for the next five years. This will be assisted by Local Development Plans and Strategic Development plans which should be developed in the context of joined up housing market area based housing needs assessments. However there is still a degree of overlap in the scope and purpose of these strategies which SPP3 does not fully clarify. Though it is noted that the SHIP is not a resource bidding document, it must be treated as a flexible plan which the local authority and its partners can adjust to meet changing market conditions and changing levels of grant funding. The rationale for Prospectuses is unclear and would seem to be an unnecessary additional layer of bureaucracy, why not simply use the SHIPs? The continued role of Strategic Development and Funding Plans is unclear and if continued in their current form would appear to cause a lot of duplication of effort.
4.	Do you agree with our proposed principles on which geographic regions for investment will be based?	This Council does not agree with the geographic regions proposed. It would be sensible to align these areas with SDP areas and Housing Market Partnership areas. Dundee Angus and Perth Councils have in the past and at present have worked together to identify housing need and demand

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		in this region. These Councils, together with Fife regarding the Northern part, are currently working on combining their Housing Needs and Demand Assessments (HN&DA), using current Scottish Government guidance. The new HN&DA will inform the TayPlan currently being developed. The HN&DA will also inform the LHSs and the LDPs which will be undertaken for development by each Council. The need for each Council to develop separate LHSs and LDP reflect the fact that there are different housing needs and demands which will need to be met by each Council. The region suggested in this response would allow the RSLs operational in Tayside and North Fife to create partnerships, achieve economies of scale, and to increase value for money.
5.	a) Do you agree with our proposed treatment for Orkney, Shetland and the Western Isles Councils? b) Do you agree with our proposed approach for Glasgow City and City of Edinburgh Councils?	(a) No comment (B) A clear case has not been made for a different approach to Edinburgh and Glasgow
6.	Do you agree that Councils, as the strategic planning and housing authorities, and in collaboration with RSLs, should advise on the regions to be adopted as the basis for Prospectuses?	Yes, this is necessary. Councils should also have a large degree of influence on the prospectuses, should this proposal be taken forward.
7.	a) Do you agree the scope of the content proposed for Prospectuses set out in Table 2? b) How can we ensure that the housing need of people with specialist requirements or in more remote or rural areas are fully reflected in Prospectuses?	(a) The Prospectuses seem to duplicate the SHIPs and to a large degree the scope of the LHS and other plans, for example: <ul style="list-style-type: none"> • Number of new homes- broad targets are set in the LHS based on HN&DA and detailed at site level in the SHIP. • Size and Type of new homes- will be identified in the Local Development Plan and LHS based on HN&DA. • Location and Sites - will be identified in the SHIP and Local Development Plan. The SHIP identifies location and sites to be developed and their priority, it also takes into account special needs housing. • Quality - This will be referred to in the LHS, SDP and LDP. Standards are already set for RSL development. • Allocation of Funding- This will be decided in the assessment of SHIPs by the Scottish Government. • Regeneration- these issues will be taken into consideration in the LHS, SDP and LDP and individual masterplans.

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		<ul style="list-style-type: none"> • Timescales and Priorities- This information is in SHIPs <p>It is important for proper planned delivery that firm commitments to three year funding is given to allow for efficiencies in procurement and to support the market.</p> <p>(b) This is already identified in the LHS based on HN&DA and detailed in the SHIP's. There is an issue of ensuring that the investment plans and priorities of the National Health Service and Social Work Services are made more consistent with housing investment plans.</p>
8.	Do you agree that there is a need to provide guidance within Prospectuses on maximum rent levels and is the proposed framework acceptable?	Guidance is required as rents will be a necessary component of the financial package. However there needs to be flexibility in setting rents and local circumstances need to be taken into consideration. Setting maximum rent levels is not necessarily consistent with proposals for mid-market rents or encouraging mixed communities.
9.	<p>a) Are there other issues which would similarly benefit from guidance?</p> <p>b) What are these and what is the case for including them?</p>	<p>a) The operation and scope for Mid-market rents.</p> <p>b) There is a lot of pressure on HAG benchmark levels where special needs housing is concerned. Recently, the particular needs of individuals being resettled from long stay hospital provision has required some very expensive building specification. Guidance is sought on any expectation of subsidy from NHS and the distinction between housing and community based institutional settings is becoming increasingly blurred.</p>
10.	<p>a) Is the Lead Developer role proposed here sufficient to deliver a more streamlined and effective approach to investment in and procurement of new affordable housing?</p> <p>b) Does it adequately balance and recognise the needs and roles of non-developing RSL partners?</p>	<p>a) On the face of it the proposals for lead developers should provide a more streamlined approach. Government should put in place a measurement of value for money to be reviewed after a period of time to assess whether the new approach has been effective. There will need to be consideration of the number of lead developers operating in each region and local authorities should gauge this. There is a lot of detail still to be worked out on the relationships between the lead developers and their client associations.</p> <p>b) The process seems to be somewhat bureaucratic and confused. Why is there a requirement for RSL's to engage formally with consortia? could they not act as free agents able to engage the lead developer that they feel can deliver the best quality at the best price? Non-developing associations may be at a disadvantage, what will prevent developing associations cherry picking the best sites and where disputes arise who will arbitrate? There is still a lot of detailed thinking to be done to clarify these relationships.</p>

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11.	What are your views on the routes we propose for establishing Lead Developers?	As stated above, the process seems bureaucratic, but perhaps necessary to achieve the transition required.
12.	Do you agree with the proposed principles of consortia and responsibilities for consortium heads?	Yes, but the arrangements are very complex and should be reviewed to make them as simple as is practical. As with other areas in the consultation there is a lot of detail still to be worked out before the process can be made operational. There needs to be a formal agreement within the consortium to protect all interests.
13.	a) Do you agree with the proposals on formation of consortia, including the requirement of a formal agreement to govern relationships within consortia? b) What guidance would be helpful to support the sector in setting up consortia and Lead Developer arrangements? c) What guidance would be helpful to ensure tenant and community engagement in decision-making?	a) The lead- developer should have in place an agreement with other RSLs for them to take on this role pre- qualification., b) The agreement needs to be a legally binding contract as would be in place between any client and contractor. c) This could be addressed in the tenant participation strategies of the Associations and specific requirements should be reflected in contract documents. Scrutiny should continue to be by the Scottish Housing Regulator. However specific guidelines should be drawn up by the SHR.
14.	a) Do you consider that there may be circumstances in which consortium membership should include local authorities or other non- RSL bodies? b) In what circumstances would you see this as appropriate?	a) Though it is hoped that consortiums would work in close partnership with consortia and LA's would have a clear interest in seeing that development is going to plan, especially where LA's have more influence in allocation of AHIF. There is risk that roles may become confused and there could be conflicts of interest where LA's seek membership in such cases. The involvement of private builders in consortia as partners, members or preferred contractors could be considered, again as long as any conflicts of interest are managed. b) It should not necessarily be discounted that LA's could themselves be lead developers if they have the support of RSL's
15.	Are there circumstances in which bodies other than RSLs might be eligible to become heads of consortia and Lead Developers?	As stated above, LA's and private developers could become lead developers where there is support from RSL's for this and where conflicts of interest are managed. The Scottish Government might wish to pilot different approaches to gauge which work and where best value lies.
16.	Do you agree that a pre-qualification process should be included in the new arrangements?	Is it not likely that the proposed pre-qualification criteria is part of the existing criteria for the AHIP programme either directly or indirectly on application for grant. If so does pre qualification add any value to the existing process? Having said this there should be a role for LA's to have involvement in decisions on the suitability of potential lead developers.

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17.	Are the pre-qualification criteria and information requirements set out at Annex C a reasonable basis on which to work with the Regulator, the SFHA and COSLA to refine the pre-qualification process?	The proposed questionnaire (Annex C) goes beyond the criteria stated in s56.5, but it concentrates on past experience, current processes and practices rather than seeking assurance from the RSL about efficiencies of the procurement process and programme.
18.	Do you agree with the proposed funding criteria for bids for specific projects?	Regarding the funding criteria and in particular the LA endorsement - this should reflect the investment priorities set out in the SHIP's and LHS. As stated previously, prospectuses are superfluous. Section 73 recommends a further assessment around price and other criteria - more detail is required to respond meaningfully to this.
19.	Do you agree with our proposed approach to development of an assessment framework?	The assessment process suggested is two tier and there are concerns over the length of time it will take to roll out. There needs to be further discussion with LAs on the role they will have in the assessment process.
20.	How might we enhance the involvement of local authorities, RSLs and other stakeholders in the assessment of proposals?	There need to be clear and agreed procedures in place and how LA's will fit in with discussions.
21.	Do you agree with our proposed approach to the appointment and management of Lead Developers?	The role of LA's should be also as conciliator or as advisor on the strategic fit of proposals.
22.	a) Do you agree with the overall approach to grant agreements for Lead Developers as set out here? b) What do you suggest we could alter to make grant payments more streamlined?	a) We welcome any approach that will achieve value for money, but more detail is needed to provide meaningful comment. b) A minimum three year (and ideally 5 year) commitment to funding needs to be made to achieve efficiencies. This would allow for future business planning by lead- developers and other RSLs and lead to increased security for lenders for the private finance element of future developments. There also needs to be a commitment to future levels of subsidy to enable developments to proceed, lead- developers and other RSLs need this certainty in order to plan ahead.
23.	Do you have any comments on the proposed timetable?	We are not convinced that the timetable is achievable. It is not clear how the timetable related to the submission and reviews of the LHS and SHIP. Given that the 2010/11 budget will be reduced due to front funding of the accelerated programme, what incentive will there be for any lead developers in that year?

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24.	Which indicators and what aspects of the Investment Programme should be included in a monitoring and evaluation framework?	There will be different roles for different bodies at different parts of the process. Part of this will be assessed through LHS and through SOA, other elements will need to be monitored by Scottish Government and by individual client RSL's. There is a need to discuss this in more detail in conjunction with COSLA and SFHA
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