Chartered Institute of Housing Scotland

Delivering Scotland's affordable housing:

The options available to Scotland's social landlords

April 2024

1. Political and economic context

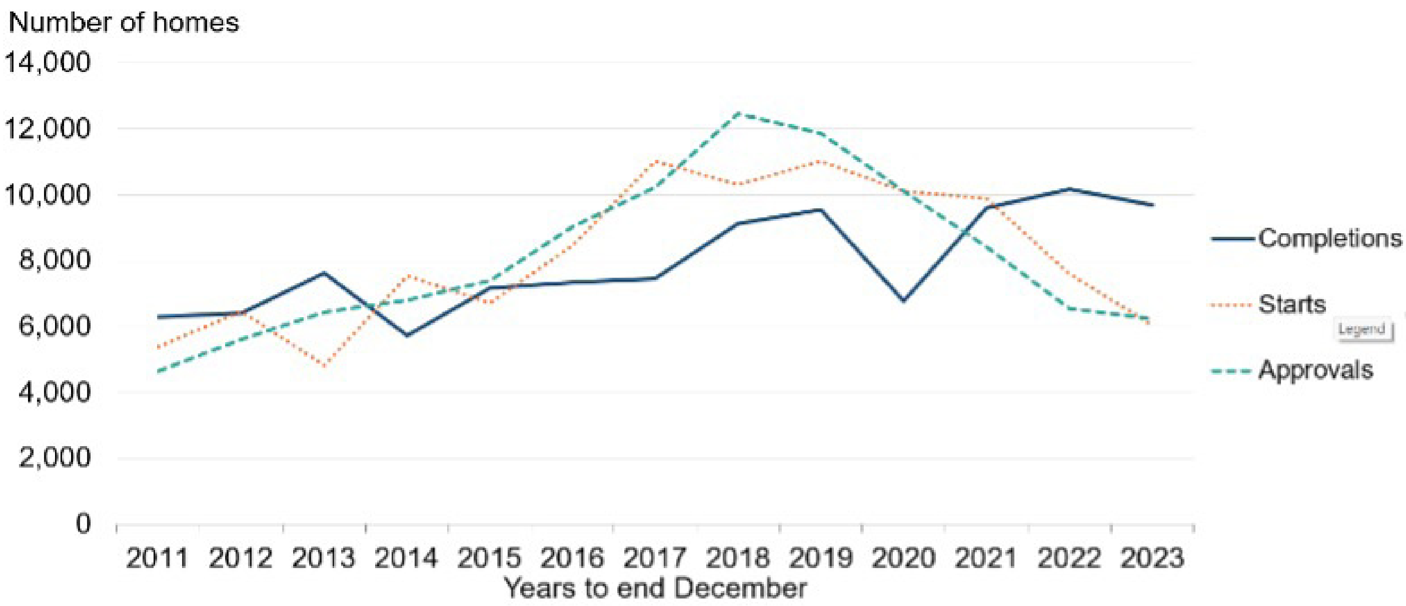
In March 2021, the Scottish Government published Housing to 2040. This paper set out a 20-year vision for Scotland's housing sector, including the delivery of 100,000 affordable homes by 2032.

Following the Scottish Parliamentary Elections in May 2021, a new SNP-Green Scottish Government increased the target to 110,000 and retained the commitment that 70 per cent would be social housing. In the autumn that year, the Scottish Government set new benchmark rates for the building of affordable housing. This increased the money available to local authorities and housing associations, although at the time, the housing sector warned that the new rates would not be sufficient to meet increasing housing standards.

In 2021/22, the UK entered a cost of living crisis and inflationary pressures rose to generational highs of over 10 per cent. These inflationary pressures were present in the housing sector and a report published by the Association of Local Authority Chief Housing Officers (ALACHO) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) in the summer of 2023 noted average build costs of £200k and some rural homes costing circa £300k. A separate Scottish Government response to a Freedom of Information (FOI) request in autumn 2023 recognised the average cost of building social homes had increased to £190k.

This has impacted the delivery of social and affordable homes as while completions look relatively healthy and increased in 2021/22, a slowdown in site starts and approvals indicates that we will see fewer completions in the coming years. For example, in the year to end December 2023, we are already seeing that the number of affordable homes completed has fallen for the first time since 2020, whilst the number of affordable homes approved and the number of affordable homes started are at their lowest level in more than a decade.

Graph 1: Affordable housing starts, completions and approvals 2011 - 2023



Source: Scottish Government

In December 2023, the Scottish Government announced a cut of almost £200m to the affordable housing supply programme (AHSP) budget for 2024-25. As a consequence, it is now unlikely that the 110,000 affordable homes target can be achieved by 2032. Indeed, the Scottish Government decision to bring forward a programme review to 2024 from 2026/27 also suggests a lack of confidence about the viability of delivery.

At the same time, the Scottish Housing Regulator's thematic review of homelessness, first published in February 2023, stated that some local authorities were under such extreme pressure they were facing systemic failure. An update in December 2023 then concluded that some local authorities were no longer able to meet statutory homeless duties for everyone. While a report last summer from SOLACE, ALACHO and CoSLA details significant pressures across housing and homeless services and a separate survey undertaken by ALACHO also lays out the scale of the homelessness challenge facing local authorities, reporting in late 2023 that half the councils in Scotland no longer have confidence that they can meet their statutory obligations all the time. In turn four local authorities in Scotland; Argyll and Bute, Edinburgh, Glasgow and Fife have now declared housing emergencies.

2. Purpose of paper

This paper is designed to set out the options available to social landlords as they respond to Scotland's housing emergency. In the absence of a political response, more funding and a review of benchmarking for building affordable homes, Scotland's social landlords must consider how they can extend the supply of social and affordable homes.

This paper is a reminder of some of the tools social landlords have available, although it is worth noting that the ability to apply these tools will vary subject to the size and scale of the landlord and the size and scale of the housing market and geographic area they operate in.

3. Options for delivering affordable housing

Managing voids

According to the Scottish Housing Regulator, there is a lower turnover of homes becoming empty than before the pandemic, however, homes are remaining empty for longer. In 2022/23, there were over 45,000 empty properties owned by social landlords and these are now empty for on average 56 days, higher than the year previous and much higher than the 32 days in 2019/20. Social landlords noted challenges with contractor performance and availability and securing available materials as reasons for the delay. Indeed, to combat labour and supply challenges, some social landlords have taken the decision to stop non urgent repairs so they can address their void backlog. This can allow tradespeople to bring vacant properties back into residential use and help address housing waiting list and homelessness pressures, although risks compromising service provision to existing tenants.

Benefits:

- Utilises existing empty properties
- Supports community regeneration
- Increases rental income and minimises revenue loss.

Challenges:

- Lack of availability of local contractors and suppliers
- Balance between needs of existing customers and prospective tenant
- Doesn't add to overall social housing supply.

Acquisition

In order to speed up delivery of affordable homes, the Scottish Government committed £60 million from the 23-24 AHSP budget for local authorities and registered social landlords (RSLs) to acquire homes on the open market.

In recognition of increasing house prices and associated costs, the Scottish Government previously approved increased subsidy levels for open market acquisition from 2022/23 onwards. The base level grant remains £15,000 for a total purchase cost of up to £60,000, increasing incrementally up to a new maximum grant of £80,000 for a total purchase cost which exceeds £260,000. Additionally, the Scottish Government will consider enhanced grants, where a Zero Direct Emissions Heating (ZDEH) system is to be installed following acquisition.

Benefits:

- Immediate and potentially cost-effective way to increase supply
- Can either add to or retain stock in the rented sector.

Challenges:

- Market costs of housing and refurbishment costs can make it prohibitive
- Relies on availability of the right type of homes in the right places
- Does not deliver new homes, but changes tenure of existing homes.

Buy back schemes

Buy back schemes allow a local authority to consider the purchase of former council homes, particularly when they are looking to increase ownership in mixed tenure blocks. However, councils will be mindful of housing market conditions and the fact that they may be preventing opportunities for people to get onto the housing ladder. Councils will only purchase a property if is considered good value for money. This will take account of the purchase price and cost of any repairs or improvements required.

Benefits:

- Immediate and potentially cost-effective way to increase supply
- Can address demand on council waiting lists.

Challenges:

- Market costs of housing and refurbishment costs can make it prohibitive
- Relies on availability of the right type of homes in the right places
- Does not deliver new homes, but changes tenure of existing homes.

Building MMR properties

Mid-market rent (MMR) is a type of affordable housing where rents are higher than social rents but lower than private rents. They can be funded through the AHSP, but receive a smaller grant rate than social housing. The differences in the grant are determined by the location of the property and whether it is built by an RSL or local authority, however, the differential between social housing grants and MMR grant range from £22,500 per home to £38,000 per home.

As such, there is the ability to build a larger number of MMR homes, relative to social rented homes using a fixed grant level, although the rental cost to the tenant is higher and MMR properties do not benefit from a Scottish Secure Tenancy (SST), they operate under the same rules as the private rented sector (PRS) and tenants have a Private Rented Tenancy (PRT). The viability of MMR will depend on local PRS markets, with rents usually set at or below local housing allowance (LHA) rates which are set according to UK Government rules and therefore subject to political intervention. MMR is aimed at people on low to moderate incomes and applicants will need to meet minimum and maximum income requirements to ensure the property is affordable but also utilised by those with greater need.

Benefits:

- More affordable homes can be built against a fixed fee, relative to social homes
- Supports housing options for those with moderate income who can't access social housing or afford market housing.

Challenges:

- Doesn't increase supply of social housing
- Excludes those with greatest housing need
- MMR viability relies on LHA rates.

Private sector leasing

Private sector leasing (PSL) services see councils lease properties from private landlords, before subletting them to people in need of housing. The properties are let under a Scottish Short Secure Tenancy (SSST) agreement, which allows the council to lease the property for one year, although a landlord does have the option of renewing the contract. For example, in Edinburgh, properties are leased for a period of three or five years through Link Housing PSL operator, Curb.

Benefits:

- Access to properties immediately for council to address housing/homelessness priorities
- Guaranteed income for the private landlord for duration of the agreement
- Promotes sustainability within the private rented sector when some landlords choose to leave the market, the scheme offers an alternative approach.

Challenges:

- Council doesn't own the asset and can be withdrawn by owner at end of term
- Landlord is guaranteed an income regardless of occupancy of property
- Landlords may be reluctant to take part in PSL schemes in areas of high demand where they can generate higher rents than the council can offer.

Local authority letting agencies

There are two examples of local authorities successfully establishing letting agencies, providing a service for local landlords and matching tenants to the right property. These are PKC Lets run by Perth and Kinross Council, which is a well-established service launched in 2010, and Your Choice Lettings and Property Management was set up by South Ayrshire Council in 2021.

Benefits:

- Establishing positive relationships with local private landlords
- Matching low-income households with appropriate accommodation
- Closer links with tenants to be able to provide tenancy sustainment.

Challenges:

- Lack of start-up funding to establish a new service requiring dedicated staff and which could take some time to see any return
- Knowledge and skills – operating in the PRS requires a very different approach from social letting and has different legal requirements
- Lack of affordable PRS properties in the area (at LHA rate)
- Concerns that private landlords may not want to work with the local authority as it is also responsible for enforcing standards
- Difficulty competing with established private letting agencies already operating in the area
- Can be subject to scale and market conditions, so unlikely to be viable in more rural, remote or island areas.

Remodeling empty buildings

With a change in working practices across the country following the COVID-19 pandemic, local authorities are increasingly exploring the development of new homes in town centres, often remodelling and converting vacant and now under used buildings.

Benefits:

- Brings town centres back into use, supporting economic and social vitality
- Supports local heritage
- Increases supply of social housing in desirable areas.

Challenges:

- Conversion of existing building can cost more than new build
- Converting an existing building into social housing which has a different purpose requires different knowledge and skills
- Limited guidance available and very few examples of success.

Private financing

Back in 2014, the Falkirk Pension Fund provided funding for a major programme of new housing, including council housing. £30m from the Falkirk Pension Fund and £6m from the Scottish Government was used to fund 62 homes which have been built in Larbert, while more recently Strathclyde Pension Fund has invested £20m in an MMR fund.

Benefits:

- Accesses private finance to fund the building of social and affordable housing.

Challenges:

- Only beneficial if loan rate is lower than existing market rates
- Uncertain to what extent there is demand to from pension funds to invest in social housing.

4. Conclusion

Despite the challenging context, there remain some options available to Scotland's social landlords as they seek to address the housing and homelessness emergency.

The options in this paper will not be applicable to all landlords across Scotland, therefore it is vital that every social landlord considers the best approach for them to address the immediacy of the housing emergency, and to maximise the availability of Scotland's housing supply for the medium and long term. Some of these can provide a more immediate response to the emergency, such as addressing void turnover times and targeted acquisitions, whereas others such as accessing investment from pension funds, if adopted, could catalyse structural change in how we provide more housing at a time of fiscal contraction.

The Scottish Government's upcoming review of the AHSP is the ideal opportunity to reconsider and recommunicate how to increase affordable housing options in Scotland. Social landlords will need support, guidance and new skills to fully realise the options in this paper, but we must also recognise that the cost base of affordable housing supply has changed and increased since benchmark rates were last reviewed in 2021. We believe that any successful approach to delivering the 110,000 affordable homes Scotland needs by 2032 will require a mix of approaches but must be matched with national funding commitments from the Scottish Government that meet the cost of delivery of Scotland's affordable homes and addressing the housing emergency.

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