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Connected for Success

Northern Ireland Housing Executive

Research Project – Funding Mechanisms for New Social Housing in Northern Ireland: A UK-wide Comparative Study

Final Report

November 2015

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1 EXECUTIVE SUMMARY

1.1 Background

This research was undertaken to provide a comparative understanding of how rates of Government funding for the provision of new social or affordable housing is set across the United Kingdom and how applicable these are in the context of Northern Ireland. The research is intended to provide an evidence base for reviewing and, if necessary revising, the approach to, and levels of, Government funding for social housing in Northern Ireland in the context of the lessons learned from the rest of the UK.

1.2 Terms of Reference

The overall aim of the research project is to provide a comparative understanding of how rates of Government funding for the provision of new social or affordable housing is set across the United Kingdom and how applicable these are in the context of Northern Ireland. The key objectives of the research, as set in the Terms of Reference, were to:

- Undertake a comprehensive review of policy documents, published commentary and academic literature relating to the funding of new social housing in England, Scotland and Wales;
- Assess how successful different models of funding have been in GB in helping to provide viable social (affordable) homes;
- Provide an indication of how applicable the different GB models of funding are in the context of Northern Ireland; and
- Provide an indication of to what extent the current system for determining the level of Government funding for new social housing in NI is still fit for purpose.

1.3 Methodology

A desk top review of documents (policy, strategy, research and academic literature) was initially undertaken to explore the developments in policy and practice in England, Scotland and Wales over the last number of years.

Following this, a number of qualitative interviews were conducted with a range of key sectoral stakeholders in Northern Ireland, England, Scotland and Wales, including Government representatives; Housing Associations; Housing Representative Bodies; and banks and finance lenders. Three Case Studies were also developed to demonstrate how individual Housing Associations had dealt with changes in the levels of government subsidy in England, Scotland and Wales.

Based on the information from the previous stages, a comparative analysis between the different policy approaches in each jurisdiction was undertaken in order to understand how effective different approaches have been in providing affordable social housing; and how applicable approaches in other jurisdictions are to Northern Ireland, taking into account the local market context.

The key findings of the research are set out below.

1.4 Key Findings

1.4.1 Grant Levels

The levels of government subsidy for new social and affordable housing vary significantly across the UK:

- In Northern Ireland, the eligible grant is currently paid at a rate of 52% of the TCI, revised upwards from 45% in 2014;
- In England, grant levels have considered reduced over the last number of years and were typically less than £25,000 per unit (23% grant rate) in the 2011-15 AHP;
- In Scotland, the grant levels for social rented housing have recently been increased to an average of £58,000 and £62,000 per unit on (the higher figure being available upon satisfying certain energy efficiency criteria). This reflects an average grant rate of 49%; and
- In Wales, the level of grant paid is approximately £69,000 per unit (58% grant rate).

1.4.2 Grant Subsidy Models

Each jurisdiction has a different approach to determining the level of grant subsidy payable to a new social/affordable housing unit. These are summarised below:

1.4.2.1 Northern Ireland: Total Cost Indicator (TCI) Model

In 1998, the DSD introduced ‘benchmark’ TCI area/cost bands for all social housing funded, or part funded, by HAG. TCIs are used to achieve value for money in the provision of social housing and to ensure that the appropriate level of HAG is paid to housing associations.

TCIs are based on a combination of information from two sources:

- Land and property costs supplied by the Department of Finance and Personnel’s (DFP) Land & Property Service’s bi-annually in Spring and Autumn reports; and
- Scheme cost data produced by monitoring approved schemes

TCIs are normally reviewed twice yearly by the DSD and are subject to consultation with the NIFHA. Updates to TCIs and accompanying grant rates are published as close as possible to the beginning of each Financial Year to have the benefit of the most up-to-date historic data on development costs.

Where the unit cost of a proposed development exceeds TCI, these schemes are subject to additional scrutiny to identify the underlying reason and confirm that the proposals represent value for money. Schemes may be approved up to 130% of TCI only where a strong case is presented with supporting evidence. Schemes over 130% do not normally represent value for money and will only be considered in more exceptional circumstances.

In exceptional circumstances, NIHE (DPG) can make Departmental Adjustments, amending applicable grant to reflect extraordinary scheme circumstances.

1.4.3 England: Affordable Homes Programme (2011-15)

Total Cost Indicators are no longer used in England. Funding under the Affordable Homes Programme (2011-15) is allocated through a bidding process. HAs' bids are assessed on the basis of value for money and housing need in each area. The Affordable Rent model was also introduced in England, enabling HAs to charge rents of up to 80% of market rent levels within the local area.

A number of concerns with the current funding system were raised by English stakeholders consulted thought the research:

- Many HAs are reaching borrowing capacity through increased private finance borrowing to fund the subsidy shortfall;
- Concerns around social housing tenants being 'priced out' of high market rent areas under the Affordable Rent model; and
- There are questions over the sustainability of a social housing programme with substantially reduced grant rates in the long term.

1.4.3.1 **Wales: Acceptable Cost Guidance (ACG) Model**

The ACG is a figure determined by the Welsh Government to be a reasonable estimate of the cost of developing a particular dwelling type and occupancy in a particular locality. ACGs are used to determine whether a proposed Housing Association development offers value for money and the level of grant funding to be provided.

ACG figures are calculated according to the size of the dwelling proposed (gross internal area as defined by the Valuation Office) and its location:

- Locations fall within five bands of ACG, ranging from Band 1 (the lowest costs) to Band 5 (the highest cost); and
- Internal areas are calculated using Notional Floor Areas (NFAs) – these are the expected floor areas for different occupancies of house or flat type. House or flat areas can be below the NFAs. However, designs significantly larger than the NFAs may be considered as not representing value for money. In such instances, if a RSL cannot provide a suitable justification for the significant over-sizing then the SHG input may be capped.

Where schemes fall below 96% of ACG, they will not ordinarily be subjected to detailed scrutiny at the tender approval stage (subject to the requirements of Grant Procedures, RSLs may occasionally be required to provide full documentation for technical scrutiny on a sample basis). However, schemes in excess of 96% ACG will receive technical scrutiny. These schemes may be approved if high acquisition and/or works costs are justified in the light of local conditions and housing need. Costs over 120% of ACG will generally not be met for general needs schemes.

Welsh stakeholders consulted through the research highlighted the following strengths in the model:

- ACGs take into account varying costs of new builds based on size and regionalised location;
- Supplements can added for supported housing specifications, recognising their additional costs;
- Schemes falling below 96% of ACG will not be subjected to detailed scrutiny; and
- Flexibility to set higher standards of specification than the minimum necessary (up to 120% of ACG).

The following weaknesses within the model were also identified:

- The ACG figures do not take into full consideration the higher land prices in rural areas; and
- Concerns were raised about the increased promotion of intermediate rent and this taking the place of traditional social rented housing, as is happening in England.

1.4.3.2 **Scotland: HAG Subsidy Target Benchmarks Model**

The Scottish model sets a range of benchmarks, based on an overall benchmark of £58k per unit (based on a 3-person home). These are designed to reflect differentials between different tenures, different energy efficiency standards, and a broad indicator of location. Benchmarks are calculated as:

- The cost of all RSL new build projects in the last financial year, adjusted to express the cost in terms of estimated cost levels of the coming financial year and in terms of a standardised 3 person equivalent; and
- Each individual project is set a HAG Subsidy Target (HST) at the acquisition stage – the HAG subsidy per unit, expressed as a 3 person equivalent. HSTs below benchmarks are subject of streamlined appraisal and approval

Applications for above benchmark are considered with justification. Applications for above the benchmark grant are considered, based on a full justification (accompanied by supporting documentation explaining why additional grant is required and the nature of the higher costs) and are only considered when all other avenues for reasonable savings have been explored.

Scottish stakeholders consulted through the research highlighted the following strengths in the model (no obvious weaknesses were highlighted):

- There is recognition of the higher costs of some schemes such as rural schemes, higher land prices and in meeting higher green standards in new builds;
- The streamlined appraisal process for schemes below the benchmark has reduced the administrate burden for HAs and government;
- Benchmarks are based on the cost of all RSL new build projects in the last financial year, and adjusted to express estimated cost levels of the coming financial;
- Costs are adjusted to a 3 person equivalent to remove the effect of the higher costs of smaller developments;
- There is a degree of flexibility for applications for above the benchmark, based on justification of costs; and
- Projects can be considered for additional grant due to unavoidable and unforeseeable cost overruns.

1.4.4 Fitness of Current System in Northern Ireland

Stakeholders from the Northern Ireland housing sector recognised that the TCI model is a useful framework and that it is intended to provide a benchmark figure for the cost of development. However, a number of perceived weaknesses in the model were reported:

- Issues with the data upon which TCIs are calculated;
- Annual updates to TCIs not published on time by DSD;
- Lack of transparency with the current model, both in terms of how the TCIs are calculated and the basis on which decisions are made; and
- Lack of flexibility within model.

1.4.5 Applicability of GB Models to Northern Ireland

A number of strengths and weaknesses of the approach in each jurisdiction in GB were identified by stakeholders consulted through the research. Housing sector stakeholders in Northern Ireland were then consulted on the relative strengths identified in each jurisdiction and asked to consider how applicable each model (or elements of the model) would be to the Northern Ireland context, and if they would improve the current system in place. The following summarises their responses:

- The English model is not applicable to Northern Ireland due to differences in the structure of each country's HA sector, and the deliberate policy shift in England to cut levels of government subsidy and move away from the supply of new social housing;
- The Welsh approach utilises a more streamlined appraisal approach could help improve efficiency if replicated within the TCI model; and
- The Scottish model has a number of elements that could be applied to Northern Ireland, namely:
    - There is a large degree of transparency in the Scottish model with data made publically available on how figures are calculated;

- There is a more streamlined appraisal process for schemes falling below benchmarks;
- Benchmarks are calculated using the actual costs of the sector's new build projects in the previous year. They are therefore a more accurate reflection of the costs incurred by developing HAs; and
- Cost data underpinning the calculation of the figures is also adjusted to estimate costs in coming financial year – thus they are a more accurate reflection of changing market conditions.

1.5 Recommendations

The report makes the following recommendations for the future delivery of the TCI model in Northern Ireland:

Recommendation 1: NIFHA to consider establishing a Working Group, with membership drawn from developing HAs, for DSD/NIHE to consult with on issues relating to the TCI model and accompanying grant rates. This will help improve transparency in the sector around the TCIs, their calculation and application.

Recommendation 2: NIHE to consider introducing a more streamlined appraisal process for Scheme Approval applications. This could follow the approach used in Scotland whereby applications that fall below the benchmark are subjected to streamlined appraisal and approval, and in Wales where schemes that fall below 96% of ACG are not subject to detailed scrutiny at the tender approval stage. DPG have already began work on this and have proposed that schemes falling below 90% of TCIs be subject to streamlined appraisal.

Recommendation 3: DPG (NIHE) to review current procedure for Departmental Adjustment and agreeing grant payments over TCIs, taking into account consultation with the newly established working group as mentioned in Recommendation 1. This will enable greater flexibility, based on a robust justification, in agreeing higher development costs.

Recommendation 4: DSD to consult with the NIFHA Working Group in the last quarter of the financial year on the updated TCIs and accompanying grant rates for the following year. Updated TCIs should be published by DSD at the beginning of each financial year.

Recommendation 5: HAs should explore alternative funding mechanisms to mitigate the impact of any future reduction in grant levels on social housing development.

2 BACKGROUND TO THE RESEARCH

2.1 Introduction

The Northern Ireland Housing Executive (NIHE), along with the Department for Social Development (DSD), commissioned RSM McClure Watters, in partnership with Dr Stewart Smyth and Professor Paddy Gray, to undertake this research study.

The study will provide a contextual background for reviewing Government funding to support the construction of new social dwellings in Northern Ireland, and more specifically a review of the Total Cost Indicators (TCIs) used by the DSD to calculate the amount of Housing Association Grant (HAG) to be paid for each individual scheme.

This section of the report sets out the background to the research, the Terms of Reference set by the NIHE, our approach to completing the research and the overall structure of the report.

2.2 Background

Public funding has become more constrained in recent years and this has re-emphasised the need to achieve greater cost effectiveness in the delivery of public programmes and services. At the same time, both land and house prices in Northern Ireland reduced significantly from their 2007 peak and broader economic conditions also made the construction sector more price competitive. While land prices still remain low, they have started to rise and construction cost are still significant.

All these factors have led to reduced rates of HAG being made available for the construction of new social housing and a greater emphasis is being placed on efficiency of delivery through innovative and collaborative practice, including more effective procurement. The Social Housing Development Programme Procurement Strategy (2008-2013) has recently been reviewed by DSD and a new approach to procurement systems and structures is being developed in partnership with NIFHA and the housing association sector. This new approach will focus on value added and outcome based procurement rather than the compliance driven emphasis of the previous approach.

In recent years similar or, in some cases, larger reductions in grant rates have been introduced in Great Britain (GB).

The Northern Ireland Federation of Housing Associations (NIFHA), which represents all registered housing associations in Northern Ireland, has indicated concerns about the ability of housing associations in Northern Ireland to deliver Social Housing Development Programme targets, both now and in the future, at current (on average 52%), or reduced grant rates.

This research will focus on providing an evidence base for reviewing and, if necessary revising, the approach to, and levels of, Government funding for social housing in Northern Ireland in the context of the lessons learned from the rest of the UK.

2.3 Terms of Reference

The overall aim of the research project is to provide a comparative understanding of how rates of Government funding for the provision of new social or affordable housing is set across the United Kingdom and how applicable these are in the context of Northern Ireland. The key objectives of the research project are as follows:

- To undertake a comprehensive review of policy documents, published commentary and academic literature relating to the funding of new social housing in England, Scotland and Wales;
- To assess how successful different models of funding have been in GB in helping to provide viable social (affordable) homes;
- To provide an indication of how applicable the different GB models of funding are in the context of Northern Ireland; and
- To provide an indication of to what extent the current system for determining the level of Government funding for new social housing in NI is still fit for purpose.

2.4 Methodology

The following methodology was developed to meet the requirements of the terms of reference:

- *Literature Review & Comparative Analysis*: Review of documents (policy, strategy, research and academic literature) to explore developments in policy and practice in England, Scotland and Wales over the last number of years. A comparative analysis between the different policy approaches in each jurisdiction has been undertaken in order to understand how effective different approaches have been in providing affordable social housing; and how applicable each approach is to NI context;
- *Stakeholder interviews*: Interviews were conducted with a range of key sectoral stakeholders in Northern Ireland, England, Scotland and Wales. This included:
    - Government representatives;
    - Housing Associations;
    - Housing Representative Bodies; and
    - Banks and finance lenders.
- *Development of Case Studies*: Case Studies were developed to demonstrate how Housing Associations in England, Scotland and Wales had dealt with changes in the levels of government subsidy; and
- *Review of current NI Approach*: Based on the information from the previous stages, the current system for determining the level of Government funding for new social

housing was reviewed in comparison with GB approaches, taking into account NI market context.

2.5 Definitions

The definitions of 'social housing' and 'affordable housing' vary across the UK jurisdictions and are often used interchangeably. For the purpose of clarity, the official definitions are included below.

2.5.1 Northern Ireland

In Northern Ireland, 'Affordable Housing' relates to social rented housing and intermediate housing. These are defined as follows:

- Social rented housing: this is housing provided at an affordable rent by a Registered Housing Association; that is, one which is registered and regulated by the DSD as a social housing provider. Social rented accommodation should be available to households in housing; need and is offered in accordance with the Common Selection Scheme, administered by the NIHE, which prioritises households who are living in unsuitable or insecure accommodation; and
- Intermediate housing: this consists of shared ownership housing provided through a Registered Housing Association and helps households who can afford a small mortgage, but that are not able to afford to buy a property outright. The property is split between part ownership by the householder and part social renting from the Registered Housing Association. The proportion of property ownership and renting can vary depending on householder circumstances and preferences.

2.5.2 Scotland

In Scotland, the term 'Affordable Rent' accommodation refers to:

- Social Rented Accommodation: this is primarily housing rented from a council or housing association at an affordable rent; and
- Mid-Market Rented Accommodation: this is housing for which the rent is higher than social rents but below the rent level charged in the private rented sector. It is currently 84% of the local housing allowance level as set by Rent Service Scotland.

2.5.3 Wales

In Wales, 'Affordable Housing' is defined as housing provided to those whose needs are not met by the open market. Affordable housing includes two sub-categories:

- Social rented housing: this is provided by local authorities and registered social landlords where rent levels have regard to the Assembly Government's guideline rents and benchmark rents; and

- Intermediate housing: this is where prices or rents are above those of social rented housing but below market housing prices or rents. This can include equity sharing schemes (for example Homebuy).

2.5.4 England

In England, 'Affordable Housing' refers to all social rent, affordable rent, and intermediate housing, where:

- Social rented housing is rented housing owned and managed by local authorities and private registered providers, for which target rents are determined through the national rent regime. It may also include rented housing managed by other persons and provided under equivalent rental arrangements;
- Affordable rented housing is a new form of social housing, introduced in 2011 as the main type of affordable housing supply. It may only be delivered with grant through the Affordable Homes Programme 2011-15 and other associated and subsequent programmes or without grant by local authority and other providers, where a contract or confirmation of the ability to charge an affordable rent is in place. Affordable rented homes are let by local authorities or private registered providers of social housing to households who are eligible for social rented housing. Affordable rent is subject to rent controls that require a rent of up to 80% of the local market rent (including service charges, where applicable); and
- Intermediate Housing is homes for sale and rent provided at a cost above social rent, but below market levels. These can include shared equity (shared ownership and equity loans), other low cost homes for sale and intermediate rent, but not affordable rented housing.

2.6 Structure of the Report

The rest of this report is comprised of the following sections which summarise the key findings of the research undertaken to date:

- Section 3: Literature Review;
- Section 4: Models to Determine Grant Level;
- Section 5: Consultation Findings;
- Section 6: Case Studies; and
- Section 7: Comparison of Funding Models and their Effectiveness

3 LITERATURE REVIEW

3.1 Introduction

In this section, we review developments in housing policy and practice across the United Kingdom (UK) relating to new social housing provision, incorporating research and academic literature as appropriate. The analysis traces how approaches to the funding of social housing within the different countries of the UK have been variously conditioned over time by changes in housing market context, the overall funding environment, and by broader developments in housing and welfare reform.

The section is organised as follows. First, we summarise a number of long run trends that have conditioned housing policy developments to some degree across all parts of the UK. Thereafter we provide a selective statistical overview of housing trends focusing in particular on developments in the past decade. We then look in more detail at key social housing policy developments in each of the main country administrations, using this analysis to draw some general conclusions.

3.2 Broad Context

Social housing in the UK is provided by both local authority (LA) and housing association (HA) landlords. These providers are also known as registered providers. Social housing is funded in capital terms through public subsidy, landlord use of reserves and asset sales and part-financed by borrowing from the private sector. It can also be funded to some degree through developer contributions (planning gain). In revenue terms, funding comes in the form of rental income paid either from household earnings or from welfare support. These forms of funding and financing interact. Thus, greater capital subsidy from the public sector can, other things equal, support the provision of a given amount of new social housing with lower private borrowing than would otherwise be required. Equally, capital subsidy can be replaced (in whole or part) by revenue subsidy in the form of increased welfare payments to meet higher rents. Of course, things over time are not equal, and new provision of social housing takes place in the context of (amongst other things) changing levels of housing demand and need, changing costs of new housing provision, and changing political priorities across areas of public spending.

Central government at Westminster determined the direction of social housing policies across the UK from the establishment of the modern welfare state in the second half of the 1940s until the late 1990s (Maclennan & O'Sullivan, 2013). Prior to 1979, central government concentrated primarily on allocating funds to local government to construct and manage new council housing. Subsequently, during the 1980s and 1990s, successive UK administrations promoted growth of home ownership and the contraction of direct housing provision by local government. These goals were achieved by giving tenants a 'Right to Buy' (RTB) at a generous discount on market value (Jones & Murie, 2006) and by transferring resources (both money and existing council stock) to a non-profit sector comprising housing associations (Maclennan & More, 2001).

In overall terms, the share of social housing within national housing provision fell from 31 per cent of the total for the UK as a whole in 1981, to 22 per cent by 1998. The share of local government owned housing within the overall non-market sector fell from 93 to 78 per cent over the same period (Wilcox & Pawson, 2010). By 2009, these percentages had reduced further, with social housing constituting some 18 per cent of total housing provision and the LA share of total social housing down to 48 per cent (Maclennan & O'Sullivan, 2013).

Devolution at the end of the 1990s created significant opportunities for policy on social housing provision to diverge within the UK, and created new policy dynamics. This phase of devolution began in the middle of what the then Governor of the Bank of England (Mervyn King) termed the "nice" decade (during which the UK experienced non-inflationary consistently expansionary macroeconomic conditions)[1]. Shortly thereafter, the 'Global Financial Crisis' of 2007/8 marked a tipping point for the UK housing market, ending a long albeit uneven period of rising house prices and demand-side pressures (Agnello & Schuknecht, 2009; Gibb, 2014). The crash itself, and its aftermath in housing terms, have been unique to some extent, reflecting both the singular scale of the event and the extraordinary lengths to which policymakers went to ameliorate it's broader as well as housing specific effects (Edmonds et al, 2011). However, it is important also to note that the crisis has interacted with longer term factors.

Firstly, there has been a broad tendency (of varying strength across different parts of the UK) for the political priority accorded to public expenditure on housing to fall relative to other areas of social policy (in particular, health and education) over time (Crawford & Johnson, 2011). At the same time, a long run restructuring has occurred in the way in which public support for housing is provided - away from capital in favour of revenue subsidy, and this has had the effect of pushing up public welfare spending[2]. Generally speaking, the financial crisis had the effect of reinforcing policy interest in driving capital subsidies per unit of social housing delivered downwards at all levels of government, while a sustained UK Government post-crash commitment to reduce public borrowing and debt have marked welfare reform as increasingly attractive (Hamnett, 2014).

Secondly, the overall level of new housing supply was proving to be of increasing concern across much of the United Kingdom well before the 2007/8 crisis, with little agreement on whether and in what combination this could be ascribed to the operation of the land use planning system, strategic behaviour on the part of landowners and developers, or other causes (RTPI, 2013). The crisis brought forth efforts across the devolved administrations, within the scope allowed by fiscal limits, to support new supply in the short to medium term

[1] The term was coined in a speech given at the East Midlands Development Agency/Bank of England Dinner, Leicester, 14 October 2003: http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2003/speech204.pdf

[2] Much of the observed increase has been due to growing numbers in private renting claiming housing benefit (Office for Budget Responsibility, 2014).

but there is no reason to believe that the longer term supply issue will not reappear once more ‘normal’ housing sector conditions are fully re-established.

Finally, it is worth noting that the devolution of political power that took place at the end of the 1990s can be seen as part of a broader process of power transference that encompasses, amongst other things, the English ‘localism’ agenda, the recent referendum on Scottish independence and the broader idea of ‘community planning’ (Maclennan & O’Sullivan, 2013). Thus, power transference is itself complex, multi-layered and dynamic.

The various pressures and trends discussed above, together with the continuing dynamics of power transference have generated differing configurations of housing policy in general and policy towards new social housing supply in particular within the various parts of the United Kingdom.

3.3 Social Housing in the UK: A Selective Statistical Overview

The Office for National Statistics (ONS) has recently published data on key UK housing market trends, providing directly comparable contextual data for England, Scotland, Wales and Northern Ireland (Beckett, 2014). The ONS data indicates that, at UK level there was an increase of 8.3 percent in total dwelling stock over the decade 2001/02 to 2011/12. For most administrations (England, 8.2 percent; Scotland, 7.7 percent; Wales, 8.1 percent) the growth in total stock was close to the UK average. Northern Ireland, with 13.6 percent growth in total stock, saw a considerably faster increase.

Table 3:1: UK Tenure Shares by Country 2001/02-2011/12

Table 1: UK Tenure Shares by Country 2001/02-2011/12					
	LA*	**HA**	**OO**	**PRS**	**Total**
UK					
20010/2	14%	7%	69%	10%	100%
2011/12	8%	10%	64%	18%	100%
England					
2001/02	13%	7%	70%	10%	100%
2011/12	7%	10%	64%	19%	100%
Scotland					
2001/02	23%	6%	63%	8%	100%
2011/12	13%	11%	62%	15%	100%
Wales					
2001/02	14%	4%	74%	7%	100%
2011/12	6%	10%	70%	14%	100%
Northern Ireland					
2001/02	18%	3%	72%	7%	100%
2011/12	12%	4%	68%	16%	100%
* In Northern Ireland this stock is owned and managed by NIHE					

Source: Beckett (2014) http://www.ons.gov.uk/ons/rel/hpi/house-price-index-guidance/trends-in-the-uk-housing-market-2014/housing-trends-article.html

ONS analysis also shows how housing tenure composition has been changing in recent years (Table 3.1). Across the UK as a whole, 'local authority'[3] housing almost halved as a percentage of total stock over the decade 2001/02 – 2011/12, while private renting almost doubled. The proportion of housing association owned housing grew by over a third, while owning declined by 5 percentage points. At country level:

- In England, significant growth in private rental stock was mirrored by a decrease in local authority housing, the latter being offset somewhat by housing association increase. Much of the local authority decrease is attributable to large scale housing stock transfer, Right to Buy (RTB) sales and low rates of new build;

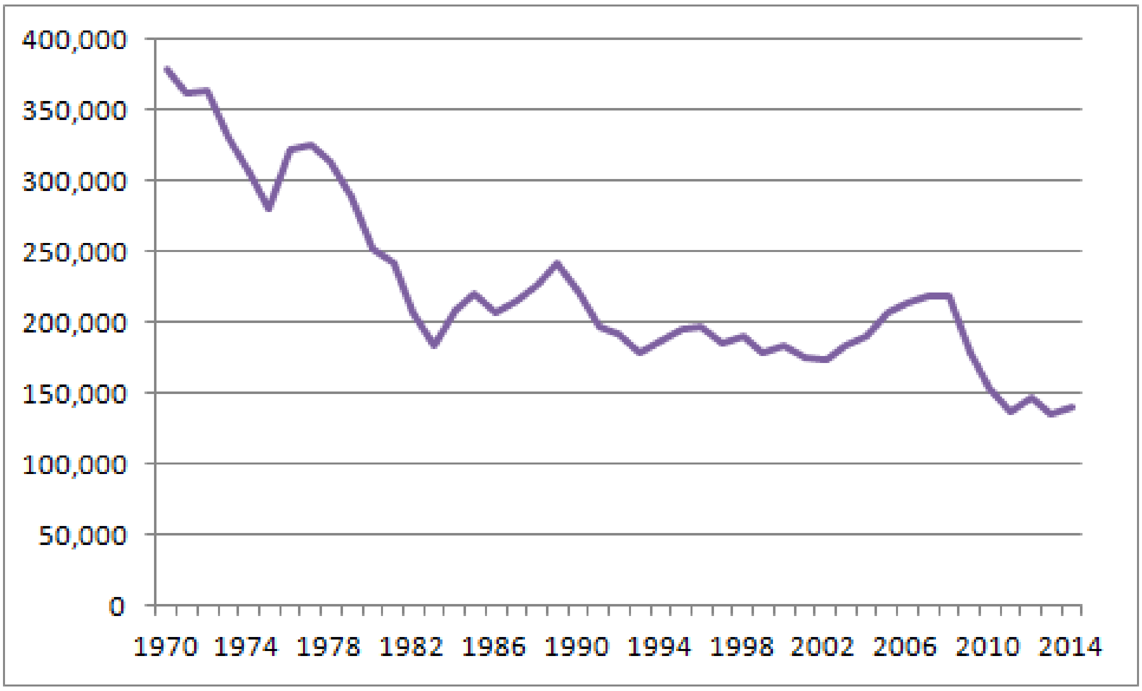
- In Scotland, the proportion of housing owned by local authorities has also declined but has remained consistently higher than is found in any of the other countries of the UK. Again much of the decrease in Scottish local authority dwelling ownership was brought about by housing stock transfers, with six authorities conducting whole stock transfers in the period 2003-2007;

[3] At UK level, this includes stock owned and managed by NIHE.

- In Wales, the proportion owning is higher than for any other country of the UK. Wales has seen the largest proportional increase in properties rented from housing associations, with stock transfer from local authorities again a driving force. Housing associations are now responsible for all the social housing provided in half of the 22 Welsh local authority areas; and

- Northern Ireland saw a 23 percent decrease in properties rented from NIHE between 2001/02 and 2011/12. A comparatively low growth rate in housing association dwellings compared to the other UK countries is also particularly evident. It should be noted that Northern Ireland had very low of levels of stock transfer, unlike other regions of the UK.

Figure 3:2: UK house building, permanent dwellings completed, 1970/01 to 2013/14



Source: Beckett, 2014, Figure 5 (based on DCLG Live Table 209)

Table 3:3: Number of dwellings completed by country, 2003/04 to 2013/14

Year	England	Scotland	Wales	Northern Ireland
2003/04	143,960	23,820	8,300	14,510
2004/05	155,890	26,470	8,490	15,770
2005/06	163,400	24,950	8,250	17,410
2006/07	176,680	24,260	9,330	17,800
2007/08	170,610	25,790	8,660	13,480
2008/09	140,990	20,950	7,120	9,720
2009/10	119,910	17,110	6,170	9,750
2010/11	107,870	16,380	5,510	7,640
2011/12	118,510	15,960	5,580	6,800
2012/13	107,980	14,050	5,450	8,030
2013/14	112,370	14,740	5,840	7,900

Source: Beckett, 2014, table 6 (based on DCLG Live Table 209)

Table 3.3 summarises new build by country being undertaken by housing associations and local authorities. It shows an increasing role in new social housing provision accorded local authorities in England and Scotland after the 2007/8 financial crisis. In Scotland, by 2013, local authorities were contributing more than a quarter of new build social housing provision. In England the relative contribution remains more modest.

More generally, table 3.4 shows how numbers of new dwellings by social housing providers were boosted after 2007 as part of governmental response to the economic crisis. This response included instances of ‘time-shifted’ capital expenditure, whereby public spending was brought forward as the housing market effects of the crisis unfolded on the basis that later spending would have to be correspondingly curtailed. In 2007, new build units by local authorities and housing associations in the UK constituted around 12 percent of total completions. By 2011 the figure was 25 percent, although this subsequently fell back to 21 percent in 2013.

Table 3:4: Permanent dwellings completed (calendar year)

	England		Scotland		Wales		NI*
	HA	LA	HA	LA	HA	LA	HA
2003	12,820	180	3,470	50	390	20	930
2004	16,600	130	3,100	0	540	0	410
2005	17,540	180	4,650	0	310	50	1,000
2006	20,660	280	3,940	10	360	0	1,040
2007	22,180	250	4,030	30	410	0	1,040
2008	26,470	430	4,110	200	510	10	1,140
2009	26,990	360	5,810	480	910	0	1,340
2010	22,650	790	5,150	560	870	0	1,200
2011	25,940	2,230	4,390	870	1,010	0	910
2012	25,440	1,410	3,920	1,100	660	0	1,410
2013	21,610	840	3,180	1,230	720	10	1,530

* The Northern Ireland Housing Executive has not built new dwellings since 2001-02
Source: DCLG Live Tables 244, 245, 246, 247

Finally, to give some more general market context, table 3.5 and figure 3.6 provide some information on recent house price and affordability trends. Table 4 is based on the ONS UK-wide house price index and is based on February 2002 = 100.

Table 3:5: National house price indices before and after the financial crisis

	Pre-crisis Peak	Index at July 2014	Difference (%)
UK	185.5	206.6	11.4
England	180.8	204.3	13.0
Scotland	230.6	232.2	0.7
Wales	222.1	220.3	-0.8
Northern Ireland	281.5	149.9	-46.7

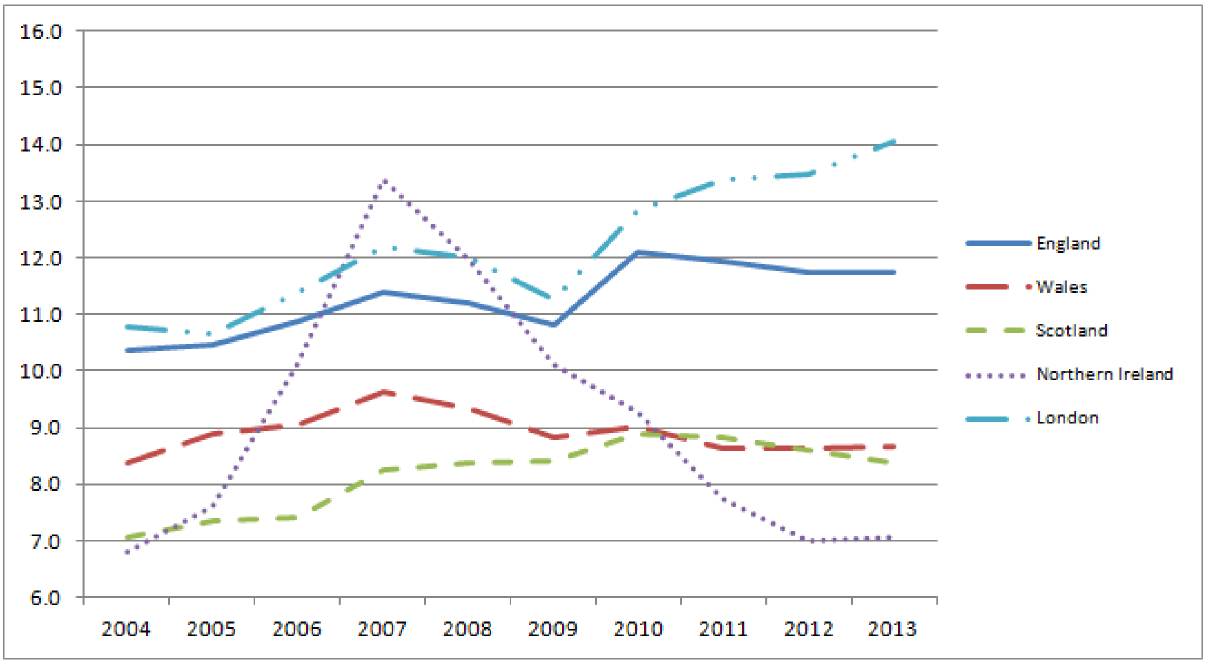
Source: Beckett, 2014 Table 7

The ONS index indicates that England and Scotland have recovered to pre-financial crisis levels. Northern Ireland stands out amongst UK countries in terms of the extent to which prices have failed to recover. House prices doubled in Northern Ireland between November 2004 and June 2007; currently, they are just over half their pre-financial crisis high. To put this in further context, across the regions of England, the worst affected region is Yorkshire and Humberside, where prices remain 5.3 percent below pre-crisis peak. In London, prices are now 40 percent above that peak.

ONS also compute comparable affordability ratios for UK countries for the past 10 years (and separately for London). These are based on the simple average house price for each country divided by the median level for annual earnings (all employee jobs) from the Annual Survey of Hours and Earnings (ASHE). Figure 2 shows the results.

On this measure, housing in England, and especially in London, has become less affordable. Affordability worsened significantly in Northern Ireland between 2004 and 2007. However, affordability in Northern Ireland and Wales is now much the same as it was in 2004.

Figure 3:6: Affordability ratio* by UK country and London, 2004 to 2013



*Ratio = Average house price/average earnings

Source: Beckett (2014) Figure 7.

3.4 Social Housing Provision: Policy Development, Implementation and Impact

In the following section, we look at social housing policy and implementation in each country within the UK.

3.4.1 Northern Ireland

Social rented accommodation in Northern Ireland is provided by both housing associations and by the Northern Ireland Housing Executive (NIHE). However, as noted in the footnote to table 3, NIHE has not built any new dwellings since 2001-02, meaning new supply of social rented housing is now delivered solely through housing associations. As at March 2013, the number of occupied, self-contained dwellings owned and managed by HAs totalled around 44,000; NIHE owned and managed around 88,000 at that date (NIHE, 2014).

Most of Northern Ireland's HAs were established in the mid-1970s. In March 2013 there were 27 registered HAs in Northern Ireland, including the Northern Ireland Co-Ownership Housing Association (NICHA). The number of registered associations in Northern Ireland has decreased steadily in the last decade (from 39 in 2003) as associations have sought to improve efficiency and maximise economies of scale through merger. The nine largest housing associations (each of which with more than 1,000 units) currently own more than four fifths (83%) of all housing association stock.

Under current 'mixed funding' arrangements, housing associations obtain loans from the private market. The private finance component now represents more than half of the cost of general-purpose development. During 2012/13, housing associations in Northern Ireland (including Co-Ownership) secured £125 million private finance in addition to the £83 million HAG received from Government, and had a turnover of £185 million. As well as securing bank loans, associations in Northern Ireland have increasingly moved towards use of bond finance from the capital markets to secure long-term funding. During 2012/13, housing associations secured £57 million in bond finance at competitive rates through the Housing Finance Corporation (NIHE, 2014).

HAG funding is provided through the Social Housing Development Programme (SHDP). The SHDP is informed by the outputs of a net stock model of housing demand/supply trends at Northern Ireland level. Account is also taken of findings from local housing need assessments (HNAs) undertaken by NIHE. The SHDP is distributed and reviewed within a framework of strategic guidelines designed to ensure an equitable geographical allocation of new social dwellings according to assessed housing need (NIHE, 2014).

Under the Department for Social Development (DSD, 2008-13) Procurement Strategy for the SHDP, HAs were required to collaborate through 'procurement groups' for tariff funding. The explicit aim of this policy was a 10 percent efficiency saving over a five year period[4]. NIFHA is currently working with DSD to develop new procurement structures that will support collaboration and efficiencies through a values and outcomes focused approach. More generally, a DSD Housing Association Guide sets out the conditions under which HAG is paid[5]. DSD assures itself that HAG funded new build activity provides value for money through the use of Total Cost Indicators (TCI), which set cost limits for specific types of work. TCI are adjusted over time to reflect market movements in land and building costs.[6]

Current levels and patterns of social rents in Northern Ireland (and elsewhere in the UK) reflect the cumulative effect of various Government policy and landlord business decisions taken over a period of several decades (Young et al, 2013). Looking forward, welfare reform is likely to affect the affordability of rents for tenants and the revenue income and costs confronting social landlords. We return to this issue later.

[4] It has been suggested that procurement groups may offer a transitional path to further formal HA merger activity in future, or the adoption of group structures (Muir, 2012).
[5] http://www.dsdni.gov.uk/index/hsdiv-housing/ha_guide.htm
[6] http://www.dsdni.gov.uk/index/hsdiv-housing/ha_guide/hag-index/hagcg-calculating-grant-contents/hagcg-tci-summary.htm

Recorded starts under the SHDP in 2013/14 (1,299 units) exceeded the official target (1,275 units). The latter was based on the amount of grant actually available, but fell short of annual need as determined by the Net Stock Model (2,000 dwellings)[7]. During 2012/13, starts on new buildings for use in the social sector totalled 1,166, of which 130 were purchased "off the shelf" and 1,036 were new build. A further 111 "existing satisfactory" properties were acquired during the year and work started on the rehabilitation/re-improvement of a further 102 properties.

There is a recognition across the housing association sector, NIHE and DSD that the current approach to the development of new social housing is not sustainable and places unnecessary pressure and risk on both delivery and funding partners. The NIHE is currently developing a Delivery Strategy that seeks to address some of the inherent problems within the current approach to managing and delivering the development programme. This piece of work has the potential to significantly improve the development environment for housing associations.

In overall terms, new affordable house building activity levels are geared towards achieving the Northern Ireland Executive's *Programme for Government* target of delivering 8,000 social and affordable homes between 2011/12 and 2014/15 (NIE, 2012). Of this total, 6,000 are expected to be for rent, while the remainder delivered through the Co-Ownership scheme. However, in recent years, issues such as land supply and planning constraints, combined with a reduction in the overall availability of funding[8], have resulted in a challenging environment for housing associations seeking to provide new social dwellings in Northern Ireland (NIHE, 2014). Notwithstanding these challenges, housing associations met and exceeded the Programme for Government target with over 10,000 new social and affordable homes provided from 2011 to 2015.

Looking forward, housing policy in Northern Ireland is in a state of flux. A consultation on a five year vision for housing in the province, *Facing the Future*, was launched in autumn 2012 (DSD, 2012).

In relation to the social housing sector, the consultation identified strong support for the SHDP, including for wider access to grants. The action plan for delivery of *Facing the Future* was published in 2013 (DSD, 2013) and details a wide range of actions to be carried out within the strategy's five-year time frame. Those relating specifically to the social sector include:

- Exploring potential for funding social housing by enabling a wider range of bodies to register as housing associations;

[7] Recent research on allocation of social housing also concluded that demand for social housing in Northern Ireland is likely to continue to outstrip supply in coming years (Gray et al, 2013), http://www.dsdni.gov.uk/index/hsdiv-housing/allocations-research.htm

[8] Social housing investment in Northern Ireland peaked earlier than in other parts of the UK (Wilcox & Perry 2014). It has been in decline since 2007/08, and Wilcox & Perry anticipate a continuing downward trend. It does nonetheless remain high as a proportion of total government expenditure.

- Harmonising standards for social housing construction with those used for private housing development;
- Increasing the availability of smaller social housing units; and
- Taking forward a Social Housing Reform Programme, involving four main projects[9]:
    - A Rent, Regulation & Inspection project, looking at the options for rent policy and regulation of social housing in Northern Ireland;
    - A Departmental Functions, Governance & Local Government Engagement project looking at departmental functions and how the structures will interact. (This includes a review of the requirements on housing associations to engage with local government representatives and councils);
    - A Regional Housing Body project looking at the options for delivery of the regional (non-landlord) functions of NIHE in the future; and
    - A Landlord Re-structuring project looking at the options for delivery of landlord functions of NIHE in the future.

Facing the Future also flags the intended introduction of a developer contribution scheme when market conditions allow. This will be in the context of significant redistribution of land planning responsibilities within Northern Ireland[10].

3.4.2 England

During the 1990s and early 2000s, social housing investment in England was managed via an Approved Development Programme (ADP), through which eligible housing associations were able to access Social Housing Grant (SHG) on a mixed funding basis (Gibb et al, 1999). The ADP required HAs to bid on a competitive basis against a published target subsidy rate. Small housing associations could bid for 100 per cent SHG if they could not secure private finance.

For most developing housing associations, average SHG as a percentage of eligible costs declined significantly during the 1990s. In absolute monetary terms however, and reflecting increasing land prices, average grant per new social rented unit increased rapidly after 1997 – from just under £23,000 to £62,000 in 2007 (Communities and Local Government Committee, 2006). One of the aims of the three year National Affordable Housing Programme 2008/9-2011/12 (NAHP 2008-11) was to check this cost inflation process

[9] http://www.dsdni.gov.uk/index/hsdiv-housing/shrp.htm

[10] The majority of planning functions in Northern Ireland are due to transfer from central government to 11 new councils in April 2015. In preparation for this change, the Department of the Environment published a new Strategic Planning Policy Statement (SPPS) in draft form in February 2014, which recommends that planning authorities facilitate the delivery of social and affordable homes and makes provision to require developers to bear costs of certain work to facilitate development proposals, including delivery of social and affordable housing.

(Newhaven Research, 2007b), as part of a broader efficiency drive associated with the 2007 Comprehensive Spending Review (Newhaven Research, 2008b)[11].

NAHP 2008-11 was followed by a much more vigorous (in terms of unit grant restriction) four year Affordable Homes Programme covering the period 2011/12-2014/15 (AHP 2011-15). The outlines of a further Affordable Homes Programme for the period 2015/16-2017/18 (AHP 2015-17) are now also in the public domain.

The AHP, which is also open to a range of providers including private developers, produces a variable and competitive grant regime geared to setting public capital subsidy at the absolute minimum necessary[12]. Non-grant sources of funding used include private borrowing raised through bank lending and private borrowing, housing association own resources from reserves (generated by surpluses or recycled capital grant), local authority contributions via planning obligations[13], surplus land or money from the New Homes Bonus[14], and additional borrowing capacity generated by providing intermediate rental stock.

Some 93,000 social rent dwellings were approved under the NHAP 2008-11 (or 174,000 including low cost home ownership (LCHO). The programme as a whole involved £8.9 billion in grant (more than £3 billion more than was committed under the preceding three year spending review (Newhaven Research, 2007b) at an average grant per dwelling of £51,000. In comparison, as at late 2013, AHP 2011-15 involved approval of some 70,000 social/affordable rent dwellings, or 88,500 dwellings including LCHO. This programme involves total grant of £2.8 billion and average grant per dwelling of around £19,000 (Wilcox & Perry, 2014). AHP 2015-17 is expected to lower overall grant further, to £17,400 per dwelling.

There has been some unavoidable overlap between spending sanctioned under the NHAP 2008-11 and its successor, making it difficult to disentangle annual delivery totals (National Audit Office, 2012). At the same time, there was also a short policy framework interregnum

[11] Efficiency has proved not just a running theme, but a source of conflict between Government and the housing association movement – as when, in late 2011, the Department for Communities and Local Government explicitly castigated housing associations for failing to open themselves up to greater public scrutiny (Newhaven Research, 2012a)

[12] http://www.homesandcommunities.co.uk/affordable-homes

[13] The evolution of English policy on the use of planning gain for affordable housing, and its relationship with broader planning mechanisms such as the Community Infrastructure Levy (CIL), has reflected the interplay of economic/housing market cycles and developing central-local government relations within the context of the 'localism' debate. (Newhaven Research, *passim*). Briefly, we may note that Central government interest in securing affordable housing through 'S106 planning agreements' grew over the 1990s and early 2000s alongside interest in promoting 'mixed communities'. By 2006-07, S106 was generating significant volumes of affordable housing in England, (Crook & Monk, 2011), but the policy was badly derailed by the global financial crisis and *Laying the Foundations* (HM Government) accords them little significance. The main achievement of S106 agreements in England was to support the provision of Low Cost Home Ownership, but in recent years Government has been concerned at the consequences for such agreements on the financial viability of market development schemes.

[14] New Homes Bonus, introduced in 2010, is a grant paid by central government to local councils for increasing the number of homes available in their areas. It replaced the previous Housing Planning Delivery Grant system, which operated between 2007 and 2010.

between the two programmes, as a consequence of which affordable housing starts fell significantly in 2011/12.

Social rent starts in England fell from around 39,500 in 2009/10 to 4,800 in 2012/13. This reflects a policy shift under AHP 2011-15 towards an ‘Affordable Rent’ (AR) model of social housing adopted to drive grant rates down. The AR model sees social housing allocated in the same way as other social accommodation, but at rents up to a maximum of 80 percent of market rent[15]. Where tenants are eligible for Housing Benefit it continues to be paid in full in the same way as for other social rented properties (CLG/HCA, 2011). Thus, AR represents a major switch from capital to revenue subsidy. The first AR units were started in 2011/12, with a total of just over 23,000 starts recorded in 2012/13 (Wilcox & Perry, 2014).

The long term viability of the affordable rent programme has proved a matter of debate because of the inherent risks of a predominantly revenue-based development model for providers and lenders. More specifically, concerns have been expressed that [1] as the new funding model requires housing associations to take on more debt, they are increasingly likely to reach the limits of their borrowing capacity, which will erode their capacity to build homes in the future and [2] affordable rents have intensified the degree of uncertainty generated by the impacts of welfare reform on future rental income streams, and at a time when banks, encouraged by the Financial Conduct Authority to ensure that their assets more closely match their liabilities, are moving towards shorter loan periods and/or demanding the ability to re-price loan portfolios every five years or so (Young et al, 2013)[16].

Downward pressure on grant subsidy per unit of social housing delivered is also being achieved by encouraging new local authority building. Reform of the English Housing Revenue Account subsidy (HRAS) framework for financing local authority housing provision (as part of the ‘localism agenda, but more generally in order to support a significant increase in council house building via prudential borrowing) was mooted in 2007 (CLG, 2007) and confirmed two years later (HM Government, 2009). Funding to support a new council house building programme of 4000+ units (to be financially managed outside the old subsidy system, pending its reform) was announced in winter 2009/10 (Newhaven Research, 2010a). The HRAS system was finally abolished in April 2012 and replaced by self-financing arrangements under powers contained within the Localism Act 2011. As part of this change, one-off payments were made to or by each council, to adjust their housing debt to reflect the

[15] Wilcox & Perry (2014) confirm that AR rents, which apply not just to units built after 2011, but also to units built under earlier financial arrangements that have subsequently become available for relet, are indeed being set at around 70-80 percent of relevant market rents across English regions.

[16] These developments suggest that capital market funding will continue to be used more extensively as the cost of borrowing from banks for housing associations that are willing and able to extend their credit lines will increase. It is also worth noting in this context however that, under a 2012 ‘Housing Stimulus Package’ the Government agreed to underwrite up to £10 billion of debt to reduce the cost of finance for developing landlords. The guarantee covers dwellings for AR and Low Cost Home Ownership. Government also confirmed that it would make an additional £225 million of funding available for new affordable housing for use where needed alongside the Affordable Homes Guarantee. This funding was then doubled in the 2013 Budget to £450 million: https://www.homesandcommunities.co.uk/ourwork/affordable-homes-guarantees-programme

assessed value of their stock.[17] Under the 2013 Autumn Statement, it was subsequently announced that English local authority borrowing caps would be lifted by £300 million to enable the delivery of 10,000 new homes. Sale of 'high value' vacant council stock would be pursued, and measures adopted to expand Right to Buy (Newhaven Research, 2014). Many English authorities have secured significant borrowing capacity through this policy reform, which they plan to use for a council building programme or to fund association new build activity.

Nonetheless, Wilcox & Perry (2014) suggest that concern is growing over whether the 2011-15 AHP programme will be delivered in full. The National Audit Office (2012) shares this concern. Providers in late 2013 were reporting increasing private market competition for land, rising contractor prices and planning delays as growing obstacles to delivery (Wilcox & Perry, 2014). Moreover, a significant tail off in commitments to include affordable housing in new private developments has occurred (indeed encouraged by central government as part of its broader efforts to re-enervate overall housing supply since the 2007/8 financial crisis – see footnote 13), which may also have consequences for the deliverability of AHP 2015-2017.

AHP 2015-17 is expected to deliver 165,000 dwellings from a grant allocation of £2.8 billion. This includes £400 million for a new 'affordable rent to buy' scheme. Wilcox & Perry (2014) calculate this might be expected, given projected average grant, to deliver around 55,000 dwellings annually, although the affordable renting/LCHO split has yet to be confirmed. Whatever the final split is, the clear intention is to keep the AR model at the core of the programme, to see new building levels augmented by additional rent generated through conversion of existing stock to AR rentals and to continue pressure on housing associations to fully utilise resources and borrowing capacity. Asset sales will also form part of the picture. Government has made it very clear that value for money must be aggressively pursued under the forthcoming AHP:

> *"…all this new money comes with high expectations about efficiency. We will need to maximise the value we get out of every pound of grant funding. We will do this through what we call 'something for something' deals. In considering bids for grant, we will expect providers to bring forward ambitious plans for maximising their own financial contribution. And we will expect this to include a rigorous approach to efficiency, along with ambitious plans to maximise cross-subsidy from the existing stock…Under the current programme, a modest level of relets have been converted to Affordable Rent, or sold and the proceeds reinvested. Under the next programme we expect providers to take a rigorous approach in looking at every relet and asking how it could best help build more homes to help more families. I expect the result to be a significant change in the number of homes that are either converted to Affordable Rent or sold when they*

[17] https://www.gov.uk/government/policies/improving-the-rented-housing-sector--2/supporting-pages/housing-revenue-account-reform-self-financing

> *become vacant"* Mark Prisk (Minister of State for Housing and Local Government), June 2013.[18]

These changes are occurring in a context of social landlord rent increases being capped at Consumer Price Index plus 1 per cent from 2015-16 to 2024-25 (Newhaven Research, 2013b), which, following the early termination of housing association/local authority rent harmonisation, has disrupted the business planning process for a number of social landlords (Young et al, 2013).

3.4.3 Scotland

Responsibility for policy on new affordable housing supply is fully devolved to the Scottish Parliament, but conditioned by overall resources made available by the UK Parliament via Block Grant. The level of Block Grant and broader developments in welfare policy (a reserved policy area), have, inevitably, featured large within recent Scottish independence debates.

The Scottish Government's housing vision and strategy for the decade to 2020 is laid out in *Homes Fit for the 21st Century* (Scottish Government, 2011). This strategy set an initial target of 18,000 new affordable homes over the period 2011-14.

In May 2011, the Scottish National Party won an overall majority in the Scottish Parliament. While confirming the overall direction for Scottish housing policy that had been articulated in *Homes Fit for the 21st Century*, the new Scottish Government committed to the achievement of a higher target of 30,000 affordable homes through its Affordable Homes Supply Programme (AHSP) between 2011/12 and 2015/16, (5,000 of these as new council homes and 15,000 as HA social rented dwellings).

The attainability of the new target was openly questioned by the Scottish housing lobby when the initial results of the 2011 Scottish Spending review delivered significant prospective cuts to the housing budget (Newhaven Research, 2012a). New housing supply funding was projected to fall by from £269 million in 2011/12 to £160 million in 2014/15[19]. Subsequent announcements have cumulatively acted to enhance spending plans. However, these announcements have become quite frequent, often involving comparatively small amounts of money, and they are often difficult to square with preceding announcements[20]. While the total original housing supply budget for the spending period 2012/13 to 2014/15 was £638 million, on the most recently available figures it is now some £970 million, with a

[18] https://www.gov.uk/government/speeches/housing-speech-by-mark-prisk

[19] The total planned housing and regeneration budget was projected to fall from £390 million in 2011/12 to £252 million by 2015.

[20] In light of this, the Scottish Government was recently taken to task by the Scottish Parliament Infrastructure and Capital Investment Committee (Newhaven Research, 2013a), which urged it to make levels of and changes in such spending much less opaque – and to clarify the relationship between approvals, starts and completions funded with public money. Audit Scotland has also stated that the Scottish Government should improve its reporting of housing budgets, spend and what the money is delivering (Audit Scotland, 2013).

projected £391 million budget for affordable housing supply in 2015/16 (Newhaven Research, 2014)[21].

Turning to delivery mechanisms for new social housing, over the 1990s and the early part of the 2000s virtually all new social housing was delivered through HAs using mixed funding. In 2007 the Scottish Government signalled:

> *"…we must and can improve the supply of all types of new housing. For some time past, we have built 25,000 houses a year – significantly less than has been required to moderate growth in house prices. By the middle of the next decade, we want to see that number increase to 35,000 houses a year"* (Scottish Government, 2007).

Firm Foundations was openly critical of rising Housing Association management costs and HAG costs:

> *"The present subsidy – Housing Association Grant (HAG) – meets an average of 67% of the cost to RSLs of each new house they build. Over the three years 2005-08, most of the Government's £1.2 billion expenditure on affordable housing will be spent on HAG subsidies. While the proportion of building costs per house covered by HAG has remained broadly constant, the amount of HAG per house has risen – from £52,000 in 2002-03, to £79,000 in 2006-07, an increase of 35% in real terms over four years… If we are to meet the need for affordable housing without placing an unreasonable burden on public expenditure, we need to change radically the means by which Government subsidises, and social landlords build, new affordable housing"* (Scottish Government, 2007).

Efforts on the part of the Scottish Government to generate greater value for money from HAG expenditure per se have however been only partially successful. Proposals to appoint specific Housing Associations as lead developers in order to secure procurement efficiencies were published in late 2008 (Scottish Government, 2008), but were subsequently abandoned (Newhaven Research, 2009b). Changes in permissible assumptions with regard to annual rent increases, void levels, management, maintenance and major repairs allowances and inflation for HAG calculation purposes were announced in May 2008 (Newhaven Research, 2008b) but then subsequently partially reversed in February 2009 (Newhaven Research 2009a).

Government funded research into the financial strength of social landlords in Scotland (Bramley et al 2010) suggested a reduction in the HAG rate to 50 percent, could sustain an annual RSL housebuilding programme at around 3,900 homes for 20 years[22]. This finding was highly contested by RSLs. Average social rent subsidy was about £70,000 per unit in

[21] These figures compare with housing supply expenditure of around £1.39 billion in the period 2008/09 to 2010/11 (CIHS, 2013).

[22] The HAG rate for social renting in 2010/11 was 54%: http://www.scotland.gov.uk/Resource/Doc/1125/0124261.pdf

2010[23]. A new benchmark of £40,000 per unit was introduced that year for RSL social housing developments (Financial Capacity, Affordability and Development Subsidy Working Group, 2013). That benchmark was however subsequently revised upwards in 2011 and again in 2013. These revisions have lifted the benchmark grant rate for housing associations to £58,000 - with additional funding available for specific categories such as greener homes and remote rural homes[24].

Scottish Government efforts to reduce grant per unit of social housing in other ways have proved more successful. A local authority prudential borrowing regime was introduced in Scotland in 2004, initially as a way of allowing local authority landlords with borrowing capacity to invest more rapidly in existing stock (Scottish Government, 2005). *Firm Foundations* however signalled the introduction of financial incentives to encourage local authorities to use prudential borrowing for building new council houses. The new financial incentives came in the form of subsidies to be awarded on a competitive basis to those authorities able to demonstrate effective and efficient use of their borrowing capacity to meet need for social housing in their areas. The Council House Building Programme subsequently introduced in 2009 involved three allocation rounds that collectively committed £80 million in grant for the delivery of 3,300 units[25,26].

Efforts were also made by the Scottish Government, after the millennium, to expand affordable housing output through planning agreements[27]. However, these efforts were never as sustained as was the case in England, comparatively few contributions were actually secured before the global financial crisis (Newhaven Research, 2008) and there is little evident enthusiasm at present within the Scottish Government to re-enervate this policy channel.

In 2012-13, funding for council homes was integrated into one budget covering both council and registered social landlord funding streams, with the intention of enabling councils to exercise their strategic housing role more flexibly. HA development activities *per se* must be demonstrated to mesh with local authority priorities by means of the inclusion of agreed 'strategic housing investment plans' (SHIPs) within local housing strategies (Newhaven Research, 2010b)[28]. Since 2012/13 the Scottish Government has also made three-year funding allocations for new affordable housing and has now provided resource planning allocations to March 2019 to support longer-term local planning (see footnote 25).

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[23] In 2007/08 was over £85,000.
[24] The equivalent benchmark for new council housing was raised to £46,000.
[25] http://www.scotland.gov.uk/Topics/Built-Environment/Housing/16342/housebuilding/allocations1209
[26] Separately, a 'National Housing Trust' initiative involving local authority and developer partnerships was also introduced in 2010, as a better value alternative to mid-market rent using HAG (Newhaven Research, 2010a). A second phase NHT initiative followed in January 2012 (Newhaven Research, 2012a).
[27] These are known as 'S75' agreements in Scotland.
[28] In April 2013, the Scottish Government instructed local authorities to draw up SHIPs for affordable housing completions covering a 5 year period (to 2017/18): http://www.scotland.gov.uk/Resource/0042/00420787.pdf

3.4.4 Wales

In Wales, RSLs delivering new affordable housing receive subsidy in the form of Social Housing Grant (SHG). Since 2005, housing associations in Wales have had to form themselves into consortia capable of delivering an SHG funding programme of at least £10 million per year in order to qualify (HouseMark Cymru, 2007). Local authorities are responsible for determining what developments receive SHG support within their area.

One Wales[29], a coalition agreement between Labour and Plaid Cymru negotiated in the wake of the Welsh Assembly election of 2007, established a target of at least 6,500 new affordable homes to be secured over the subsequent 4 years[30].

An Affordable Housing Task and Finish Group was established in late 2007 to explore barriers and opportunities relating to the affordable homes target. The 'Essex Review', as this came to be known, found significant performance shortcomings in the affordable housing sector and urgent change required with respect to the regulation, funding, assessment and delivery of affordable housing (Affordable Housing Task and Finish Group, 2008). Initial recommendations included allowing associations to set up more flexible group structures, ending detailed association scheme appraisal, greater sweating of existing association assets, a new regulatory regime and a stronger strategic enabling role for local authorities.

In 2010, the Welsh Assembly Government (WAG) secured power to legislate on a range of housing matters[31]. A national housing strategy was published in 2010 (WAG, 2010), which reaffirmed the existing target of 6,500 additional affordable homes by 2011, but was comparatively light on other specifics, in part because sub-working groups spawned by the initial Essex Review were still deliberating.

In 2012, WAG published a White Paper (WAG, 2012) setting a new target of 7,500 affordable homes by 2016. A further Task Force established by WAG to identify ways of enhancing housing supply reported its findings in early 2014 (Housing Supply Task Force, 2014). On SHG, the Task Force contrasted the Wales' full SHG rate of 58% (an average of £69,152 per home), with the 14.6% grant rate being achieved in England, commenting:

> *"At these rates the AHP will deliver 2.9 homes for every 1 delivered here for the same budget"*.

It also drew a comparison with the more similar Scottish benchmark system (operating under a benchmark grant of £58,000):

[29] http://wales.gov.uk/strategy/strategies/onewales/onewalese.pdf?lang=en
[30] As context for this figure, independent estimates (Holmans and Monk, 2010) have suggested that there is a sustained requirement for around 9,000 market sector dwellings and 5,000 non-market sector dwellings annually).
[31] http://www.legislation.gov.uk/uksi/2010/1838/pdfs/uksi_20101838_en.pdf

> *"Welsh grant is 16% higher than the benchmark for housing associations used in Scotland…this suggests there is scope for the current rate to be driven lower"*.

The Housing Supply Task Force has recommended that WAG introduce a variable and competitive grant system for both social and intermediate rent and that the system is built on a ratio of two thirds social housing and a third intermediate rent. Additionally, it recommends opening up SHG to new providers, including private sector developers.

The Task Force recognised the potential wider effects of these recommendations, including cultural impacts:

> *"A competitive grant system [such as in England] would also have considerable impact on providers and provision. It works by favouring lower cost developers with stronger balance sheets. This could unsettle the housing association sector, it may lead some to cease developing and increase the pressure to merge. This impact may be intensified should grant be opened to other providers and take up by the private sector be significant. In turn this could reduce associations' appetite to deliver wider benefits as they seek to concentrate resources on development. It may affect the geography of development"*

On balance however, the Task Force appears to have been of the view that some cultural change may be overdue in Welsh housing - not least with respect to the local authority housing strategy function:

> *"We believe that delivering new homes requires the right culture at the heart of both the planning system and the strategic housing function (as exercised by local authorities). Both need to promote a more enabling approach, respond more dynamically to opportunities to make development happen and to value housing development against competing pressures...We have found an apparent disconnect between local housing strategy and the planning process with a lack of capability and political leadership of the former most obviously to blame"*.[32]

The WAG response to these recommendations and observations is awaited. However, in March 2014, WAG raised the affordable homes target for the current term of Government from 7,500 to 10,000 units, and entered into a 'supply pact' with Community Housing Cymru on behalf of Welsh housing associations[33]. The pact commits WAG to:

- ensure a sustainable rent policy is in place for the 5-year period 2014-19[34];
- take action to make publicly owned land available for housing; and

[32] The Wales Audit Office is also concerned that local authorities see the strategic housing function as of low priority (Wales Audit Office, 2012).

[33] http://chcymru.org.uk/en/view-news/welsh-government-and-community-housing-cymru-launch-housing-supply-pact

[34] WAG is introducing a new rent policy for housing associations in 2014-15 and for local housing authorities in 2015-16 (following exit from the Housing Revenue Account Subsidy system). The new policy will ensure that legislative and policy frameworks are consistent across all social landlords. The intention is to use a specified formula for a period of five years.

- implement a risk-based regulatory framework.

With respect to local authority social housing provision, Wales contains 22 unitary local authorities, 11 of which have transferred all of their social housing stock to housing associations. Provisions within the Housing (Wales) Act 2014 have reformed the Welsh HRAS system, and the 11 remaining Welsh local authority landlords are due to leave that system and become self-financing from April 2015. The councils involved have been required to take on additional debt from the Treasury, but are free to borrow against their stock subject to a Treasury approved limit of £1.85 billion. However, the settlement has not produced significant borrowing capacity that can be used to fund new build (Housing Supply Task Force, 2014).

WAG continues to seek finance innovations to support affordable housing provision. In this regard, the Welsh Housing Partnership (WHP) is a recent £106 million project involving several housing associations, WAG and the Principality Building Society. WHP is financed by £21 million of Government grant, equity finance from the housing associations and loan finance. As at 31 December 2013 the WHP had invested over £50 million, with the balance to take place in 2014 and 2015.[35]

A further innovation is the 'Welsh Housing Bond', also known as Social Housing Revenue Grant. Launched in late 2013, this involves a 30 year pledge from WAG of £4 million per annum to help RSLs access the capital market. The initiative is expected to facilitate £130 million of borrowing by housing associations to support the development of about 1,000 new affordable homes. Sites and developments to be supported by the scheme have been identified across all 22 Welsh local authorities and the new homes are to be completed by 2016. A second phase is also planned.[36]

In terms of possible future policy developments, the Housing Supply Task Force has recommended that new money is set aside for a challenge fund for local authority building and/or enabling. The Task Force recommends this covers grant for new local authority social rented dwellings and for covering the costs of guaranteeing a 'National Housing Trust for Wales' initiative following the Scottish model.

These policy developments and possibilities have arisen in the context of falling overall totals of social housing investment since 2009/10. The SHG budget was £101 million in 2012/13, £74 million in 2013/14 and £58 million for 2014/15 (Wilcox & Perry, 2014).

3.4.5 Welfare Reform: Impacts and Implications

Welfare reform has been a major priority of UK Coalition Government since 2010 and has proved a very complex, dynamic and still unfolding process. The overall aims of the reform have been to reduce benefit expenditure, incentivise people to enter work, or increase their

[35] http://www.welshhousingpartnership.co.uk/en/about-us.html
[36] http://wales.gov.uk/topics/housing-and-regeneration/grants-and-funding/housing-finance-grant/?lang=en

hours, and to make the benefit system fairer (House of Commons Work and Pensions Committee, 2014). Inevitably, this has made benefits harder to access for some, and less generous for others. Of relevance here is that:

- Much of the change has focused on housing related assistance; and
- The devolved administrations remain to varying degrees in disagreement with aspects of the Westminster reform agenda and have in different ways sought to amend the main thrust of reform to fit better with more localised policy priorities and social values.

The findings of a range of official and independent studies of the potential impacts housing of welfare reform are summarised by Gibb et al (2013). Within this body of work it is suggested that:

- Some 31% of working age Housing Benefit (HB) claimants living in social housing in Great Britain will receive reduced HB because of under-occupation, with 19% of those affected under-occupying by more than one room (DWP, 2012);
- The overall cap introduced on total benefits receivable affected 90,000 adults and 220,000 children in Britain in 2013/14 (DWP, 2012);
- Approximately one in seven social tenants in England are affected by changes to HB non-dependent deductions (NDDs) (Wilcox, 2011);
- Over 48,000 HB recipients in Wales have lost £9 per week on average (WAG, 2013); and
- In Scotland, around 110,000 social renting households of working age may be in receipt of HB and have one or more rooms more than considered necessary (Scottish Government, 2011b). Scottish housing associations and co-operatives expect income to fall by £33.5 million between 2010-11 and 2017 – a reduction of 9% – because of changes to NDDs, under-occupation and the household benefit cap (IS4, 2012).

In Northern Ireland, in overall terms, Beatty & Fothergill (2013) estimate the consequence of welfare reform has been to take £750 million annually out of the economy, with the biggest financial losses arising from reforms to incapacity benefits (£230 million a year), Tax Credits (£135 million a year), below inflation up-rating of most working-age benefits (£120 million a year) and reforms to Disability Living Allowance (£105 million a year). Housing Benefit reform has so far had a more modest impact, amidst continuing Executive reluctance to implement the 'bedroom tax' aspects of reform or embrace Council Tax Benefit cuts within the specific context of the Northern Ireland rates scheme.

With respect to the private rental sector, Beatty et al (2014) conclude that recent changes to Local Housing Allowances (LHA) and HB[37] have had limited consequences in Northern

[37] Between 2010 and 2012 the basis for setting LHA rates, which govern the amount of HB receivable by private tenants, was changed from the median to the 30th percentile of local market rents; LHA uprating changed from a monthly to an annual basis; LHA rates were capped by property size and abolished for properties of over four bedrooms; an excess that was payable to tenants in properties

Ireland to date, in terms of tenant displacement or landlord exit. Longer term impacts could be of greater significance however:

> *"Nearly nine in ten landlords said that they intended to continue to let to tenants receiving LHA in the year ahead, mainly because of the retention of direct HB payments to landlords and the security of this rental stream for landlords. However, over a third of landlords also said they might cease letting to under single 35 year olds, and over a fifth said they might cease letting to LHA tenants in the coming year. Over a quarter of landlords, with both smaller and larger portfolios, said that they might sell up and leave the rental market altogether in the next year. Some landlords expressed concern about the future impact of Universal Credit (UC) on tenants' ability to pay the full rent, even if the housing element of UC were to continue to be paid to landlords."*

With respect to social renting, Gibb et al (2013) note that the significant dislocations anticipated to arise from direct payment of rent to tenants and monthly payment of benefits in mainland UK are concerns of no or limited resonance for Northern Ireland due to the important operational flexibilities in welfare reform implementation that the Executive has secured from the Department for Work and Pensions. However, approximately three fifths of HB recipients in the social rented sector could be affected by both the under-occupancy-related HB reduction and the change in NDDs, although the majority are likely to experience relatively modest effects.

The way in which these circumstances are expected to interact with developments in the private rented sector and play out in specific local contexts is assessed by Gibb et al to be quite mixed. In general terms, they note that:

> *"Social renting is not independent of the wider low income housing system that includes private rented housing. Given the plentiful supply of privately rented properties to the HB sector, there may in the shorter term be a tendency for unemployed younger people to move to the private rented sector rather than 2-bed social tenancies because, depending on LHA rates, the former may become the cheaper option. However, the benefit reductions operate differently in the Housing Benefit-supported segments of the private and social rented sectors and in the future demand for social renting could be increased by any widening of the gap between LHA and market rents in the private rented sector."*

Welfare Reforms now in force in the rest of the UK have yet to be fully implemented in Northern Ireland, but there is increasing pressure for movement on this issue. In due course, application of reduced HB in cases of under-occupancy, in particular, is likely to have possible impacts including an increase in social sector rent arrears and increased demand for the limited stock of smaller properties. On this latter point, NIHE (2014) note:

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with a rental value below their HB entitlement was removed; 'non-dependent deductions' were increased and the age below which the less generous 'shared accommodation' rate of HB is payable was increased (Beatty et al, 2014).

> *"There is an opportunity to change the social housing stock profile through development of new, smaller units. However, the relatively small number of new additions to the stock would take some time to significantly affect the overall stock profile. As a proportion of the overall stock, the number of one- and two-bedroom properties will therefore remain relatively low for the foreseeable future".*

In sum, the welfare reform agenda continues to evolve at pace, and reform in Northern Ireland is developing in ways that are significantly different to that in Great Britain, both because of structural differences in policy and because the Northern Ireland Executive has won important operational flexibilities in welfare reform implementation from DWP that are not available to other UK administrations. The first point means that it is not possible to be definitive at present on what welfare reform will wholly involve. The second point means that in key respects the welfare reform experience of Great Britain is not relevant to Northern Ireland.

3.5 Discussion and Conclusions

A number of general observations can be made, based on the preceding analysis.

First, long term UK Government housing policy has been to substitute revenue for capital subsidy support for new social housing provision. Post devolution, this has been pursued more aggressively in England than in the other countries of the UK.

Second, all country administrations have (on a long-term and continuing basis) sought greater value for money from the capital subsidy made available for new affordable housing provision. This search has taken a number of forms, including increasing the proportion of LCHO and reducing that of social rented accommodation delivered through affordable housing programmes, encouraging cross subsidisation (from the private sector via planning gain and from within the social rented sector via use of association assets and, increasingly, via prudential borrowing), and through greater efficiencies within the housing association sector. Planning gain contributions gained greatest traction in England until this approach was undermined by the global financial crisis of 2007/8 and, latterly, by the policy preferences of the UK Coalition Government that came to power in 2010. On the other hand, local authority building under prudential borrowing has become a significant contributor to social rented new supply in Scotland and to a lesser extent England to date. However, direct attempts in Scotland, Wales and Northern Ireland to inculcate greater efficiency through direct cultural change within the housing association sector has met with varying degrees of success.

Third, policy development at country level remains highly active across all administrations. In part, this is a reflection of the growing influence of devolution on the establishment of country specific policy positions. In part, it reflects continuing UK and country-specific adjustments and readjustments to the impacts and backwash of the global financial crisis. In part also, it reflects the ways in which housing policy at country level continues to react to the unfolding process of welfare reform.

Fourth, with specific respect to welfare reform, as the move from a capital-based to a revenue-based development model has been more extensive in England than elsewhere, English social housing providers are most exposed to risk arising from this reform process (Wilcox & Perry, 2014). This is not however to suggest that the welfare reform process does not pose risks to social housing providers elsewhere.

Finally, looking beyond the massive short-term disruptions to UK housing caused by the global financial crisis, long term trends in overall supply continue to cause concern, and future success in resolving that problem will have a significant effect on the amount of social renting required. Amongst other things, this will form part of the context for considering the introduction/reintroduction of planning gain requirements for affordable housing across the UK as local housing markets return to more normal conditions.

4 MODELS TO DETERMINE GRANT LEVEL

4.1 Introduction

This section presents an overview of the different models used within each jurisdiction to determine the level of government subsidy paid to new social developments.

4.2 TCI Model in Northern Ireland

In 1998, the DSD introduced ‘benchmark’ TCI area/cost bands for all social housing funded, or part funded, by HAG. TCIs are used to achieve value for money in the provision of social housing and to ensure that the appropriate level of HAG is paid to housing associations. The eligible grant is currently paid at a rate of 52% of the TCI (this was revised upwards from 45% in 2014).

4.2.1 Setting of TCI Levels

TCIs are based on a combination of information from two sources:

- Land and property costs supplied by the Department of Finance and Personnel’s (DFP) Land & Property Service’s bi-annually in Spring and Autumn reports; and
- Scheme cost data produced by monitoring approved schemes.

Account is also taken of statutory requirements, including new forms of Government Tax levies and other costs that impact on the cost of construction works. TCIs are normally reviewed twice yearly by the DSD and are subject to consultation with the NIFHA. Updates to TCIs and accompanying grant rates are published as close as possible to the beginning of each Financial Year to have the benefit of the most up-to-date historic data on development costs. In 2014, a more protracted exercise had to be undertaken and normal practice in relation to the publishing of updated TCIs did not apply.

TCIs include the 'average' or 'norm' unit cost of housing on a City/District Council Area basis. They include three main cost elements:

- Acquisition (or land) element;
- Works cost element; and
- On-cost element.

Key and Supplementary Multipliers are applied to the base TCI figures to allow for scheme variations as outlined in the multiplier tables. Thus, there is a relationship between the base ‘norm’ cost of a unit and its unit type. A series of key multipliers adjust the costs for different types of procurement including new build, off-the-shelf, rehabilitation and existing satisfactory purchases. A series of supplementary multipliers further adjust the costs for the scheme type including housing for the elderly, supported housing, listed buildings, single storey, wheelchair etc.

4.2.2 Schemes Exceeding TCI

From 1st April 2010, all HAs moved to a Tariff funded arrangement (i.e. TCI times Grant Rate) and funding is awarded on this basis. The principle of Tariff funding is that Associations gain financially on some schemes, which in turn subsidises more expensive schemes. DSD funds and NIHE (DPG) manages the Social Housing Development programme on this basis. The underlying policy objective of tariff funding is to incentivise HAs to achieve value for money in their construction procurements.

Where the unit cost of a proposed development exceeds TCI, these schemes are subject to additional scrutiny to identify the underlying reason and confirm that the proposals represent value for money. In such cases, the Association must give detailed reasons why the unit cost exceeds TCI (this applies to both tariff & non-tariff funded schemes). Schemes may be approved up to 130% of TCI only where a strong case is presented with supporting evidence. Schemes over 130% do not normally represent value for money and will only be considered in more exceptional circumstances.

In such exceptional circumstances, NIHE (DPG) can make Departmental Adjustments, amending applicable grant to reflect extraordinary scheme circumstances. DSD and NIHE use Departmental Adjustments as a control mechanism to deal with extreme or exceptional occasions where grant may be revised upwards or downwards consistent with the Tariff funding approach

NIHE (DPG) monitor scheme submissions and tranche payment claims to identify appropriate cases where a Departmental Adjustment may be proper. Associations are also permitted to apply directly to NIHE (DPG) requesting an adjustment to its applicable grant. Applicable scheme submissions must contain detailed robust reasons for a Departmental Adjustment with supporting evidence including an itemised cost breakdown or the request will not be considered by DPG.

Examples of extraordinary scheme that would justify a Departmental Adjustment upwards and downwards are outlined in the table below.

Table 4:1: Departmental Adjustment types

Departmental Adjustment type	Examples of extraordinary circumstances
Enhancement	High Acquisition Costs due to location 'hot spot' within a District Council Isolated geographical location
	Major site development works
	Costs associated with archaeological investigations
	Work associated with Listed Building features
	Work associated with features required within Conservation Areas or designated Areas of Outstanding Natural Beauty
	Installation of small sewage treatment plant or pumping station associated with a maximum of two dwellings
Reduction (N.B. guidance valid at date of scheme approval continues to apply)	Grant exceeding Qualifying Scheme Cost
	Works Final Account substantially(>30%) below approved Works Costs
	Where Associations have not adequately or reasonably investigated site conditions prior to site purchase, a Departmental Adjustment may not be normally be available.

In assessing any Departmental Adjustment, NIHE (DPG) takes into account the cumulative tariff gain/loss of the respective HA in the preceding year. Departmental Adjustments are not considered for tariff schemes after start on site stage or where the scheme/element cost index is lower than the scheme/element TCI benchmark. The amount of any Departmental Adjustment is converted into a Supplementary Multiplier with a corresponding revised Grant Rate for the entire scheme.

4.3 Subsidy Benchmarks in Scotland

Prior to 2010, each Registered Social Landlord (RSL) development project was assessed independently, with grant subsidy calculated as the difference between approved costs of the project and the amount of borrowing that could be supported by social rents. This system was replaced with National HAG Subsidy Target (HST) benchmark model. These were introduced instead of a set of individual geographically specific benchmarks (other than the general/rural split) because the Scottish Government wanted greater consistency and transparency in the appraisal of HAG.

For RSLs, there is not a maximum subsidy level per unit, but a range of benchmarks (see table below), based on an overall benchmark of £58k per unit (based on a 3-person home). These are designed to reflect differentials between different tenures, different energy efficiency standards, and a broad indicator of location.

Table 4:2: National HAG Subsidy Target benchmarks

	Highland, Island Authorities and remote and/or rural Argyll	Other rural	City and urban
RSL social rent – greener (3 person equivalent, benchmark)	£72k	£63k	£62k
RSL social rent – other (3 person equivalent, benchmark)	£68k	£59k	£58k
RSL mid-market rent – greener	£34k (3 person equivalent, benchmark)		
RSL mid-market rent – other	£30k (3 person equivalent, benchmark)		
Council social rent – greener	£50k (flat rate benchmark for council projects)		
Council social rent - other	£46k (flat rate benchmark for council projects)		

4.3.1 Calculation of Benchmark Levels

The cost of all RSL new build projects in the last financial year is updated to express the cost in terms of estimated cost levels of the coming financial year and in terms of a standardised 3 person equivalent. From this, the cost of Private Finance available is deducted and the resultant figure is the HAG cost of the project. The Benchmarks are then set at the most expensive (in HAG terms) project in the lowest third of all projects.

Adjustment factors are applied to the historic cost data are to take into account the changes in costs from the tender date, with an adjustment to allow for the estimated cost variances in the coming year.

On average, developments of smaller units are less expensive per unit than developments of larger units, but more expensive per bedspace. In order to remove the effect that this has on the Benchmarks and to make them more applicable to all sizes of houses, the information from all projects is converted into a 3 person equivalent.

Within the AHSP there exists a strong focus on enhancing the energy efficiency agenda. To incentivise delivery of new homes which would meet a superior greener standard, higher subsidy benchmarks are provided (an additional £4k).

4.3.2 Schemes exceeding Benchmark Levels

Flexibility to award grant subsidies higher than benchmark applies to both RSL and Council housing projects.

Each individual project is set a HAG Subsidy Target (HST) at the acquisition stage. The HST are the required amount of HAG subsidy per unit, expressed as a 3 person equivalent, full rent equivalent.

RSLs propose their own HST for a project, which the Grant Provider then appraises (Grant Providers are either the Scottish Government Housing Supply Division Area Teams or, in the cases of Edinburgh and Glasgow, the City Councils). If the proposed HST falls below the benchmark, then the project will normally be the subject of streamlined appraisal and approval.

The basic premise of this approach is that if a project requires a level of HAG that is lower than the set level, then by definition, it represents good value for money. If not, then a more detailed appraisal is warranted to establish the reasons why and to ensure good value for money.

Applications for **above** the benchmark grant require a full justification (accompanied by supporting documentation explaining why additional grant is required and the nature of the higher costs) and are only considered when all other avenues for reasonable savings have been explored. The time taken to approve above-benchmark payments varies depending on the nature of circumstances.

The Grant Provider will take the final decision on whether higher grant requirements are acceptable and at what level, based on the evidence provided by the grant applicant. This may include for example:

- Evidence that the site valuation and acquisition price reflects identified remediation costs (including infrastructure, decontamination works, removal of foundations and demolition costs) which are unavoidably high;
- Evidence of higher costs associated with particular needs housing;
- Evidence of higher costs stemming from particular planning requirements/restrictions; and
- Evidence of how rigorous the grant applicant has been in pursuing alternative options either to minimise additional costs or identify other funding.

Before agreeing above benchmark grant subsidy, the Grant Provider will, in consultation with RSLs, consider whether there are reasonable alternatives, such as developing a different site, inviting a different landlord to develop the site, or negotiating a lower price for the development.

4.3.3 RSL Cost Overruns

From 1st April 2012, all RSL projects receiving funding from the AHSP were permitted to be considered for additional grant in relation to unavoidable and unforeseeable cost overruns.

Tender stage is the point at which the amount of grant funding for a particular project will be finalised. However, consideration is given to providing an additional grant contribution towards the funding of unavoidable and unforeseeable costs which may be identified following tender approval.

In such cases, cost overruns are required to be notified to the Grant Provider immediately when they become apparent, together with an initial estimate of cost. This will enable immediate discussions to take place on the actions proposed by the RSL to mitigate the effect of the cost overrun, thereby offsetting, or eliminating the potential additional grant requirement. RSLs must demonstrate to the Grant Provider's satisfaction that the additional costs have not resulted from their deliberate actions and that they could not reasonably have been foreseen.

In addition to immediate notification, a formal, written request for approval of additional grant, at the practical completion stage of the project, is required along with all the information necessary to evidence the reasons for the cost overrun.

The Grant Provider take the final decision on whether cost overrun requests are acceptable based on the evidence provided by RSLs.

Unavoidable and unforeseeable cost overruns which are below £20,000 or 1% of the works cost, whichever is lower, will not normally be considered eligible for additional grant funding and must be met by the RSL.

4.4 Acceptable Cost Guidance Figures in Wales

The Acceptable Cost Guidance (ACG) is a figure determined by the Welsh Government to be a reasonable estimate of the cost of developing a particular dwelling type and occupancy in a particular locality. ACGs are used to determine whether a proposed Housing Association development offers value for money and the level of grant funding to be provided.

The Social Housing Grant rate is the total proportion of the actual scheme costs that will be funded by the Welsh Government and is currently 58% for social rent and 25% for intermediate rent. The total grant eligibility (i.e. the level of grant paid) is determined by multiplying the ACG per dwelling by the Social Housing Grant rate.

ACGs are reviewed on an annual basis.

4.4.1 Calculation of ACGs

ACGs specify the cost of providing an affordable dwelling (including professional fees and RSL overheads) according to the size of the dwelling proposed (gross internal area as defined by the Valuation Office) and its location:

- Locations fall within five bands of ACG, ranging from Band 1 (the lowest costs) to Band 5 (the highest cost); and
- Internal areas are calculated using Notional Floor Areas (NFAs) – these are the expected floor areas for different occupancies of house or flat type. House or flat areas can be below the NFAs. However, designs significantly larger than the NFAs may be considered as not representing value for money. In such instances, if a RSL cannot provide a suitable justification for the significant over-sizing then the SHG input may be capped.

There are also a number of supplements added for Supported Housing

4.4.2 Schemes exceeding ACGs

RSLs are at liberty to set higher standards of specification than the minimum necessary to meet Development Quality Requirements. Where RSLs are seeking additional grant to meet higher specifications these should be agreed with the Homes & Places Division (H&P) prior to the tender stage submission or earlier.

The Welsh Government expects that the majority of schemes are capable of being produced at or below ACG. Where schemes fall below 96% of ACG, they will not ordinarily be subjected to detailed scrutiny at the tender approval stage (subject to the requirements of Grant Procedures, RSLs may occasionally be required to provide full documentation for technical scrutiny on a sample basis).

However, schemes in excess of 96% ACG will receive technical scrutiny. The RSL's tender documentation should clearly identify the costs of higher levels of specification. These schemes may be approved if high acquisition and/or works costs are justified in the light of local conditions and housing need. Grant will be paid in situations where it can clearly be demonstrated that:

- No lower cost alternative is reasonably available; and
- Any planning requirement which appears to have the effect of materially increasing scheme cost is reasonable.

Costs over 120% of ACG will generally not be met for general needs schemes.

4.5 England

Total Cost Indicators are no longer used in England. Funding under the NAHP (2008-11) and AHP (2011-15) is allocated through a bidding process. HAs' bids are assessed on the basis of value for money and housing need in each area.

5 CONSULTATION FINDINGS

5.1 Introduction

Consultations were conducted with key stakeholders, namely representatives of Government Bodies (GBs), representatives of HAs and housing association representative bodies (RBs) in Northern Ireland, England, Scotland and Wales, in order to gather their views on the funding of new social housing building.

All consultations were conducted as semi-structured interviews, meaning that the specific questions asked were tailored to the context of each organisation. However, there were general themes that informed the questions. These themes were:

- The changing nature of government subsidy for new social housing builds;
- Views on the use of TCIs (or equivalent in each jurisdiction); and
- The current debates around the supply of social housing and factors that may impact on this.

For HAs and RBs, the additional area of exploring different funding sources that they (or their members) have or plan to utilise was also covered.

This section presents an overview of the salient points emerging from these interviews in each jurisdiction.

5.2 Northern Ireland Stakeholders

This section presents a summary of the consultations carried out with key stakeholders in Northern Ireland.

5.2.1 Government Representatives

5.2.1.1 Funding Environment

Consultees were of the consensus that HAs will require a steady stream of government subsidy if development targets are to be met. Currently, four large HAs are producing 80% of the target as they can cope with fluctuations in the market or adjustments in grant levels long term, whilst small HAs cannot. This may encourage more consolidation of the sector in the future in order to sustain development and grow HA stock.

There was also consensus that a reduction in grant levels may be necessary as part of forthcoming austerity measures. Given that the sector already lacks capacity and is over regulated, a first step in mitigating the financial constraints could be a more efficient regulatory regime.

5.2.1.2 **Views on TCIs**

The was a commonly held view among government stakeholders that TCIs are a fair benchmark from the perspective of land valuations and regionalised market values and that HAs understand them very well. While in favour of departmental adjustments, one stakeholder highlighted that there needs to be more clarity around how decisions are reached as the flexibility they provide is vital to the viability of some social housing schemes in difficult areas (e.g. outer rural).

5.2.1.3 **Wider issues impacting the sector**

In the macro-economic environment, if public finances do not improve and the economy cannot take the slack, there will be a pressure on incomes in NI and this will increase demand for social housing. At the HA level, there will always be a competitive tension between maintenance of stock and development. If the economic situation deteriorates along with decreased grants, HAs will become maintenance focused and development will cease. However, HAs will need to become less risk averse as the old regime of high grants and high leverage are going to disappear either through necessity or shifts in policy.

5.2.2 Housing associations and representative bodies

Six housing associations have been consulted to date:

1. HA_1 is a small association with circa 700 homes and develops an average of 30 new homes each year;

2. HA_2 is a large association with a stock of just over 5,500 homes. HA_2 has recently begun developing again and completed 128 new homes in 2012/13. Its Board has an ambitious development plan over the next number of years with a target of 200 new homes per annum. While they are currently considering some other forms of housing such as shared equity or mid-market rent, at present they only plan to build social units;

3. HA_3 is one of Northern Ireland’s medium to large housing associations with circa 3,900 units. The majority of their housing is for general needs but they also have a significant proportion of Supported Living housing stock. HA_3 delivered 200 new homes in 2013 and plans to deliver 500 in 2014/15. They plan to start 400 units on average over the next five years;

4. HA_4 is a medium to large sized association with a housing stock of circa 3,600 units. The Board of this HA has set ambitious development targets and now consider themselves ‘development focused’. They have delivered 1,344 new units over the last 5 years and had 354 new starts in 2012/13. They plan to develop 2,000 new homes over the next 2 to 3 years;

5. HA_5 is a large housing association with over 9,000 units in Northern Ireland and almost 500 in the Republic of Ireland managed through a subsidiary. It has a well-diversified housing stock and offers a wide range of services. Development over the last 3 years has averaged 200 new units per year. In 2014/15, HA_5 will add 500 units through a combination of different schemes that include general needs, supported housing and Existing Satisfactory Purchase (ESP). The Management Board want to keep future development levels at 500 units per year with some shared equity units also; and

6. HA_6 is a small housing association with circa 680 units of which the majority are supported living.

In addition, two representative bodies (RB_1 and $RB_{2)}$ from the social housing sector were also consulted.

5.2.2.1 Views on the Social Housing Development Programme

HA_1 thinks that previous cuts in HAG resulted in smaller HAs dropping out of the development programme. Lower levels of grant result in increased risk from a private financier's perspective and therefore more leverage is required which smaller HAs do not have. HA_1 stated that reduced grants means smaller HAs will either cease development and simply maintain their stock as a social landlord or be forced to merge with a larger HA. This was echoed by some extent by HA_5 in that the share of development has changed significantly across the sector over the last ten years. In the last year 80% of development has been delivered by 4 HAs.

The viability of HA_4 schemes is determined by its own financial model, rather than grants alone. While HAG is an important part in determining overall capacity for them, it is less important to individual schemes given their size. However, revenue viability becomes more of an issue as they have to ensure the scheme is sustainable. Lower grant levels mean that Supporting People or supported housing schemes are less attractive investments.

HA_3 stated that reduced HAG requires more security, which will inevitably be reduced as HAs are forced to use more of their reserves for development. Therefore, all HAs will reach a point in the future where they cannot develop because they will not be able to access any private finance. HA_2 looked at HAG at a higher level and explained that there is an obvious connection between HAG and development, an adequate level of grant is required to drive development. This is because social housing is fundamentally 'subsidised-housing' and without that subsidy development can't happen.

RB_1 and RB_2 had similar views on the SHDP as the HAs. Both mentioned that the recent increases[38] mean that HAG is not as big of an issue within the sector as it once was. Key issues to be addressed that impact on development are:

[38] DSD announced agreed an increase in the average HAG rate to 52% (from 45%) in October 2014.

- **The planning regime**: HAs receive no support from the planning system which, given the regulatory system they operate within, puts them at a disadvantage to a private developer; and
- **Regulation:** The sector needs an independent regulator to reassure private investors, particularly if any form of rent control was to be introduced.

5.2.2.2 Views on TCIs

Overall, a common statement from all HAs was that TCIs do not factor in realistic construction or land costs. While, they might act as a useful benchmark, HAs do not think the calculations are sophisticated enough to overcome the limited information that TCIs are based on (i.e. LPS data is not a complete picture of housing development within any particular area).

HA_1 finds it hard to get a scheme to hit 100% of TCI, due to the costs of land and construction that it is based on. They find that most of their schemes come in around 110%[39]. They feel that TCIs do offer a useful framework but need to be more flexible and more transparency is required as to how they are calculated. They have also found regulations regarding unit types to be restrictive, such as the requirement for apartments to have 1.5 parking spaces per unit. Also, the Department are trying to encourage very high density schemes (30 – 40 units per acre) but Planning Control prefer 20 – 25 units per acre max. In terms of improvements to TCIs, HA_1 would like to see the Department work collaboratively with HAs and consider using the costs of construction provided by the sector and work out average costs per unit.

HA_2 has found the Department more receptive to change in TCIs over the last year however, flexibility is key going forward. TCIs need to be revisited regularly to reflect changes on the market that are impacting HAs that are developing. There is too much lag in the system and this impacts on the financial modelling of HAs. There have been instances of where TCIs do not reflect the cost of land accurately and that means HA_2 cannot consider developing in some parts of NI (such as North Down). In terms of improvements, HA_2 would like to see TCIs published on time in January each year and reviewed quarterly. A more consistent approach regarding departmental adjustments would also be favourable as they currently do not know how or on what criteria decisions are reached.

HA_3 views TCIs as a ‘broad brush’ approach that is not sophisticated enough to produce an accurate indication of the true cost of development. TCIs are based on LPS data and HA_3 explains that this information contains too few transactions and thus extreme figures (based on particularly good or bad deals) can unbalance the TCI calculations. Land values are also thought to be overly cautious and not reflective of what HAs are actually paying in a competitive marketplace. There is also inflexibility regarding scale, TCIs need to factor in that smaller schemes are more expensive in rural areas due to higher infrastructure costs. In

[39] It should be noted that analysis of data on the proportion of schemes that are developed in and around the TCI level originally set (included in Section 7.3) shows that the majority of schemes are delivered at, or below, the TCIs.

terms of improvements, HA_3 would like to see more transparency as to how they are calculated, more regular reviews and be based on data provided by HAs so that they reflect the prices actually paid in terms of land or construction costs.

HA_4 cites the lack of transparency as putting a big question mark for HAs over TCIs. The Department should be able to stand over its figures and as such publish how they are calculated. HA_4 also echoed the concerns of other HAs in that TCIs are not flexible enough to include changes in a dynamic market and that the evidence base of the LPS is too small for accurate calculations to be produced. TCI is a 'One size fits all' instrument but each scheme is different both within the context of one HA or across the whole sector. HA_4 would like to see a scheme specific appraisal (i.e. a TCI calculated for each scheme) rather than averages calculated across the whole sector. In terms of improvements, HA_4 would like to see more flexibility as it feels that rules regarding 130% or 140% of TCI schemes not being allowed to process are irrelevant, as that is the decision of the HA. If they can make it work for them over 25 or 30 years the Department should not be able to refuse it. The Grant would still be paid based on the 100% TCI calculation and the HAs would carry the risk.

HA_5 views the regulatory environment within which it develops as adding to the constraints imposed by TCIs. For example, HA_5 estimated that its cost per unit is 25% higher than private developers due to the higher standard of house it is required to build. If this was not the case, TCI would be less of an issue as it is based on private and social development data. However, HA_5 sees TCIs as 'having run their course' as they lack the flexibility to take into account the development challenges facing HAs in today's market. For example, in Northern Ireland HAs are now developing on land that private developers are not interested in due to required exceptional works (such as ground reinforcement). Increasingly, HAs are building on sites less desirable to private developers and as such are incurring higher costs. HAs do not also have the same flexibility of building elsewhere as they have to develop where there is a social housing need. HA_5 explains that TCIs do not factor in these changes in the sector and as departmental adjustments cannot be relied on, TCIs are not reflecting the realities of social housing development.

RB_1 reinforced the comments made by HAs regarding TCIs. Key issues highlighted included:

- TCIs based on 'averages of averages' which is not reflective of the market;
- Calculated using LPS figures which are based on a low volume of transactions and, again, are not reflective of the market;
- Lack of real world experience and an understanding of the commercial realities of development;
- The Department should consider using HA data for TCI calculations as this would provide a more accurate information; and
- Timing of TCI figure critical, it needs to be ahead of the development year not six months into it (as happened in 2014).

5.2.2.3 Funding Environment and Exploring Other Funding Sources

HA_1 has accessed private finance from a combination of banks and the bond market (through The Housing Finance Corporation - THFC) and is currently sourcing £9 million for development purposes over the next two years. In the last five years HA_1 has secured a total of £10 million in private finance. It has been difficult to procure finance collaboratively with other HAs as banks have to assess each individual HAs circumstances when lending. However, as they have been investigating the possibility of bond market finance through THFC this is less of an issue and could have real potential in the future.

At present HA_2 has loans totalling £80 million with 5 banks and £10 million with THFC (THFC is viewed more as a sympathetic partner than a lender). The experience of sourcing funding from banks has been quite positive as banks view NI HAs as lower risk investments than the rest of the UK due to the level of HAG and the tight regulatory environment. At present HA_2 is satisfied with the finance it gets through THFC which is bond market based as this is done on an aggregated basis, however, THFC still has high asset cover requirements. In terms of accessing the bond market directly, HA_2 is unlikely to do so in the near future due to the process and costs involved (e.g. obtaining a credit rating from Standard & Poor costs £30,000).

HA_3 accessed a mix of bank and bond market finance and will complete its first NI bond issue in 2015. This will be used to refinance short term bank loans and development finance. HA_3 is also working with another NI based HA to access £200 million from the European Investment Bank. This will be a 25 year loan at a favourable interest rate, something no longer available from commercial banks. A partner HA was required due to the scale of the loan.

HA_4 has accessed a diverse range of funding including THFC (£17 million from a bond issue), European Investment Bank (accessed through THFC to provide £15 million) and banks (£120 million). HA_4 has not had an issue accessing finance and was over-subscribed with banks when seeking £120 million in loans, although this was in 2006 the terms and interest rates have remained unchanged through the recession. However, when sourcing new loans from banks today the terms have changed from 25 years to between 5 and 10 years. This is problematic as long term assets (houses) require long term guaranteed finance so that HAs can properly estimate the viability of schemes. As the bond market finance and European Investment Bank offers longer term finance these sources are becoming increasingly attractive. However, they will be accessed through an aggregator (THFC) rather than individually. HA_4 does not think that there is much scope for forming consortiums in NI to raise finance as this has been tried before and offered no benefit in terms of efficiencies or improved rates. Also, risk appetites between management boards tend to differ and has led to difficulties.

HA_5 funding reflects a combination of bank and the bond market through THFC and the European Investment Bank. HA_5 did not want to disclose figures. However, in its experience, HAs in the UK are seen as secure investments and because 75% of social tenants in NI are on full housing benefit this is particularly attractive to banks (although Welfare Reform may impact this).

RB_1 views the NI social housing sector as strong in terms of its ability to access funding based on the stringent regulatory environment and strong finance directors within each HA. RB_2 echoes this but adds a note of caution that regulation of the sector needs to move beyond political control to reassure investors in the long term.

5.2.2.4 Wider Issues Impacting the Sector

HA_1 views capacity amongst existing HAs to take on NIHE stock as a potential issue in the future depending on what NIHE might become. Stock transfers need to be quality housing and not stock that needs major refurbishment. In addition to the potential investment required to bring the housing up to the HAs standard, NIHE rents are also too low for HAs to sustain. Welfare reform is a potential issue in the future but will not effect HAs in the same way it impacts NIHE as HA_1 believes HAs have better tenant management structures and legal procedures in place. Rent setting would prove much more problematic for HAs as the sector would find its ability to access finance greatly reduced as each HA would not be in control of its own revenue streams. The transfer of planning powers to local councils is also a significant concern as it has the potential, not only to slow the planning process, but also to complicate it. At present HAs understand planning at an NI level, but as it moves to councils there is the potential for 11 different interpretations of planning regulations which would need to be factored into each scheme differently.

HA_2 sees the most important issue that will affect the sector as the prospect of changes to rent policy. Stringent rent controls would impact access to private finance, either from banks or bond markets. Welfare Reform is more of a side issue as they are confident they have the processes in place to deal with any adverse effects. By HA_2's own estimation, up to 10% of its tenants could be affected by the 'bedroom tax' if it was to be brought in. This would require a significant investment in one or two bedroom units in the future, which in turn would impact on its ability to meet its own development targets.

In terms of the impact of Welfare Reform, HA_3 explains that the experience in England to date would indicate it's not as bad as was first feared. However, some policy decisions being made at the NI level ahead of the anticipated reforms are creating difficulties already. Any new social housing development in NI must be 10% one bedroom units (a response to the potential impact of the 'bedroom tax'). This is viewed by HA_3 as a 'broad brush' approach that is causing difficulties in its own financial modelling and will probably create voids or unused units in the future. In part, this is because it will be developing new social housing in rural areas where there is very low or no demand for one bedroom units, and as such it was described as 'a waste of our time and effort and the Departments money'. There also needs to be clarity around how the bedroom tax will be implemented in NI. For instance, will it only be imposed on new tenants or will existing tenants also have to pay? HA_3 also thinks the Department needs to understand that lower grants will result in higher rents for tenants. As the majority of rents are paid by Housing Benefit, lowering grant levels will simply be shifting the costs from one budget to another.

HA_4 views rent control as major factor that has the potential to seriously impact on its business plan and subsequently, its business model. At present, rents are benchmarked and they are comfortable that they are affordable. If 'Target Rents' were to be introduced HA_4 thinks this would be unfair as uniform rents across all HAs would not factor in different service levels or standards of accommodation. In summary HA_4 listed the issues in order of their potential to impact their business plan:

- Rent Control;
- Reduced Grant levels;
- Constant construction cost increases;
- Land cost increase; and
- Welfare Reform.

There is also the expectation from tenants to provide added value to developments such as parks or public amenities (in England this can extend to swimming pools and leisure centres). Overall, HA_4 thinks that the sector as a whole has been micromanaged by the Department over the years and this will need to change as HAs are becoming more like social enterprises and less reliant on government intervention.

HA_5 foresees a more competitive sector in the future with private sector developers able to compete for grant. This has the potential to energise the sector and encourage a more 'business-like' approach among HAs but private developers must have to conform to the same regulations as HAs to ensure a level playing field (HA_5 estimates that a private developer can build a standard three bedroom unit for £75,000 compared to £100,000 for a HA).

RB_1 identified 2 revenue risks:

1. Welfare Reform; and

2. Rent Setting.

Welfare Reform is being dealt with through mitigation measures which mean this should be a manageable risk. However, a rent setting policy is likely to be more of a political decision and this is likely to have a knock-on effect of HAs scaling back development plans (due to increased difficulties accessing private finance). HAs cannot have the same rent polices and arrangement with the Department as NIHE. In discussions with private lenders RB_1 indicates that it is concerned that what has traditionally been a safe investment will become less attractive in the future if HAs do not retain control over their revenue streams. If revenue is constrained by a rent setting policy, there may be reduced scope to take on significant levels of stock from the NIHE that requires substantial repair and improvement. Housing associations would need to take on additional private finance in order to fund capital improvements and this requires certainty around rental income in order to service in the interest on that debt.

RB_2 echoed the points made by RB_1 however, RB_2 views Welfare Reform, specifically the 'bedroom tax' as a major issue facing the sector in NI. While a number of concessions have been negotiated, the potential impact of a 'bedroom tax' in NI would be substantial. NI has a particularly high proportion of stock that is under/over occupied, 66% of tenants are in the wrong size of home compared to 30% in England.

5.3 England Stakeholders

This section presents a summary of the consultations carried out with key stakeholders in England.

5.3.1 Government bodies

5.3.1.1 Theme 1 – changing nature of government subsidy

GB_1 explained the process of how the level of grant funding under the AHP is calculated. 'We start off from the pot of money available and then the Ministers decide on how many homes they want for that amount of funding. What we don't put in the prospectus is how much per house. The total number of units delivered is based on an overall view including nil grant bids, S106 homes and those done by housing associations out of their own resources.

GB_1 explained that the housing associations' bids are assessed on the basis of VFM and housing need in a particular area. In the 2015-18 funding round allocated earlier this year there was a big emphasis on one and two bedroomed homes because of the impact of the welfare reforms (i.e. the bedroom tax). The 2011-15 programme had separate targets for each sub-programme (e.g. empty homes, travellers halting sites) as well as the main programme. In the new programme it was decided there would not be separate targets. In part this was because some associations did not deliver as much as previously targeted (in the 2011-15 programme).

Therefore in the 2015-18 programme the priorities were elsewhere and particularly with one and two-bedroomed homes.

On the basis of the above, a nominal grant rate is calculated by just using an average.

5.3.1.2 Theme 2 – moving away from using TCIs

GB_1 was unclear as to when the government had moved away from the use of Total Cost Indicators. However, the new AHPs do carry out cost comparison work, so that when the bids are submitted there are various cost comparators used and if an association submits a lower bid it must be assessed to establish whether the homes can be delivered at that level.

GB_1 stated that under the NAHP (2008-11) the proportion of grant was much higher, approximately £60,000 on average, instead of the current level of around £20,000. The move to this model of funding has led to a greater onus on the viability of housing associations and their ability to service the amount of debt that they need to cover the fall in grant levels. This is especially the case if the associations cannot find the funding from their normal resources. GB_1 reported that: ‘There is a lot of work that goes on with the regulator to see what their gearing is like, are they going to be able to support this amount of borrowing’.

5.3.1.3 Theme 3 – debates around the current AHP

GB_1 understood that there are a range of concerns in the sector about the current Affordable Homes Programme (AHP) both 2011-15 and 2015-18. First, is a concern about the levels of debt. GB_1 stated: ‘We work closely with the regulator to establish how much more debt the sector can support, what the impact would be. It’s like a dual assessment by the funding agency and the regulator to ensure that they can support the amount of debt involved. Unless it passes both then it does not get approved’.

With regard to how housing associations are expected to operate under this programme, GB_1 commented that: ‘Some of the bigger ones have to work like businesses now; they really have to be commercially minded … [using] cross-subsidies through full market developments, making a profit that can then be used to develop for the affordable and social markets.

In these circumstances GB_1 has realised that some big housing associations are ‘getting to the stage where grant is not the highlight of their week. They could probably do without grant maybe but it’s probably a dangerous game to play’. In contrast the group of smaller associations, G350, need to club together to access this grant funding.

Second, the first allocations for the 2015-18 AHP were made earlier this year. GB_1 reported that a sizeable proportion of £1.7 bn. was retained in part to allow smaller housing associations and consortiums to develop bids, as they take a longer time. Therefore £880 million was distributed in the summer. The balance is to be used for Continuous Market Engagement (CME) as and when the associations work up bids. GB_1 thought that this would be a fairer approach for community groups and make sure everyone has a chance to develop.

When asked to assess if the amount retained for CME was greater than expected because of a lack of engagement with the programme by the sector, GB1 responded ‘Did we think we’d dish out a bit more over the summer? Yeah maybe – we didn’t have a set amount in mind’. The objective was to deliver the ‘most amount of homes for the least amount of money while still delivering good standard homes and not getting into financial trouble. There is always a trade-off’.

Third, with regard to the Affordable Rent products and the policy stipulation to convert social rent levels to affordable rent levels as a source of funding, GB_1 commented that there has been more of an emphasis on converting properties in this programme than previously. According to GB_1, ‘Housing associations have to think about the demands of the programme versus the needs of their tenants’.

5.3.2 Housing associations and representative bodies

Three housing associations have been consulted to date:

1. HA_1 is a large-sized association with a stock of nearly 30,000 homes and develops between 500-700 new homes each year made up of S.106 funded, HCA funded and other (internally) funded units. It does not view itself as a traditional housing association and are seeking to innovate modes of delivery and forms of finance;
2. HA_2 is another large-sized association with a stock of nearly 40,000 homes. HA_2 has been a developing association for the past ten years with an average of 1,000 home completions per annum. HA_2 has an ambitious target of delivering 12,000 new homes in a 7 year business plan ending in 2020. These properties will be a combination of social, affordable and full market rent/price units. HA_2 is increasingly commercial in their attitudes and work practices. It talks about making profit for a purpose, not non-profit making; and
3. HA_3 is a medium-sized association, with 15,000 homes, having been set-up following a stock transfer less than 10 years ago. It has recently moved into developing and had developed 100 units in the previous year. It has set a target of 1,000 completions in the next three years.

In addition two representative bodies (RB_1 and RB_2) in the housing industry covering social housing were also consulted.

5.3.2.1 Theme 1 – changing nature of government subsidy, and Theme 2 – moving away from using TCIs

RB_1 confirmed that the government had moved away from using the old Housing Association Grant (HAG) and related total cost indicator model of funding in the late 1990s. This in its opinion was a positive step as it left the housing association sector free to concentrate on developing the most appropriate homes in the most innovative manner possible. So RB_1 commented that ‘if you are hiring people who you think are the very best, then why on earth are you telling them how to do their job’.

However, there was less support for the move towards a revenue-based (rather than capital-based) funding model among the housing associations and there was outright opposition among the representative bodies to this move. The revenue-based funding model seeks to minimise the amount of upfront capital grant made available. Instead, to fund new builds resources come through higher on-going subsidy via the benefits system. There was a common perception that the reduction in government capital funding had just shifted the funding from the DCLG budget to that of the DWP.

RB_1 commented that it is of the opinion that the balance between capital and revenue funding is too skewed towards revenue under the current programmes. RB_2 commented that upfront capital investment remains both preferable and essential: ‘We think it is the most efficient form of subsidy and in the medium to long-term represents better value for money. We acknowledged that a revenue-based model like the current AHP model and the reliance on housing benefit obviously has lower upfront cost but does leave government with a pretty long-term spending commitment'.

RB_2 said it would endorse the finding in the 2012 NAO report that a model like the NAHP 2008-11 represents better value for money. It sees it as important that any analysis goes beyond that first round economic analysis and looks at wider factors: 'So that direct public investment gives greater planning certainty, a more effective way to shape the scale and shape of the housing delivered and a better way of targeting investment in areas and markets that most need it'.

5.3.2.2 **Theme 3 – debates around the current AHP**

The housing associations had all bid as part of the 2011-2015 AHP even if HA_3 had only joined the programme at the end. However, in the 2015-18 programme HA_1 decided not to bid; this was the first time since it became a developing association. The reasons for this were a combination of 'such low levels of capital grant' and 'the HCA bells and whistles' that accompanies grant funding. HA_1 is of the opinion that it could not develop new homes at affordable or social rented levels without some sort of government grant. It is monitoring this position and have not ruled out bidding as part of the *Continuous Market Engagement* funding stream; but has made a decision to 'plough its own furrow' and not be reliant upon government funding for new developments. In the meantime it is developing its own schemes that are not a market-level or social-level rented product but somewhere in between and geared towards the specific demands of its customer base.

HA_3 bid in the 2015-18 programme and explained that as this is a relatively new process for the association, it did not have previous comparators that influenced its decisions. It felt it could develop some stock at the levels of approx. £20,000 government subsidy per unit. Any new developments have to be negotiated with its existing bank funders (HA_3 secured a thirty-year credit facility from two commercial banks just before the effects of the 2007/08 credit crisis started to impact on bank lending into the sector). This negotiation took place via approval for a revised business plan where the financiers would charge fees for the process.

Further, to benefit from others expertise and access economies of scale HA_3 has joined a consortium with other housing associations in the northwest of England. A further benefit of such an arrangement is that it is possible to trade bid for units between members of the consortium. The consortium works both on funding applications and also procurement services. Developing a funding strategy remains the responsibility of the individual members of the consortium.

HA_2 was happy to go for the 2015-18 programme even with the continued low level of grant funding as to achieve its stated target, of 12,000 completions in 7 years, it needed funding from as many sources as possible.

HA_1 noted the under-allocation of 2015-18 funding round in April 2015 and was not surprised about this outcome. For HA_1, the 2011-15 programme has been the most complicated for the smallest amount of grant, 'it just doesn't add up to a particularly good business proposition' HA_1 summarised one of the prevalent attitudes in the sector: 'A lot of us thought that when it first came out in 2011 that it was unsustainable but ok we'll play the game due to the economic crisis … it is definitely not the silver bullet, it's not the answer; just a response to a time and a place'.

HA_1 was also critical of the implementation of the Affordable Homes Programmes: 'what we thought was going to be a new approach, what we expected was quite a light touch approach – that hasn't materialised at all. Are they investing in trusted delivery partners or are they allocating to those that bid the lowest?' In addition the AHP has been accompanied by 'a very, very complicated legal agreement that was all new'.

HA_2 is very engaged with both 2011-15 and 2015-18 programmes. For 2015-18 programme it got everything it bid for (£33 million) 'which was the first time that had happened' and 'will deliver about 2,200 homes'. It is the lowest bid it had ever submitted averaging £15,000 per unit, but it felt it was 'better than nothing'. As HA_2 has now been engaged with the HCA over a number of programmes it felt it 'has the processes in place to deal with the bureaucratic HCA requirements'.

However, HA_2 does not know where all the funding is going to come from to complete the 2,200 homes. It does have some debt funding currently available, not drawn down, but the projections show it needs another £300 million over the next 2 years. It is looking to raise that funding through a bond. It will be the first time it has raised debt in this way.

HA_2 reflected the point about scale made by GB_1 where the low levels of grant makes economic sense for an association operating at its scale but for smaller associations it wouldn't.

When asked if HA_2 thought the programme was sustainable, it replied: 'Subsidised housing needs subsidy – subsidy is absolutely essential'. HA_2 thinks the grant levels should be higher than they are at the moment. It pointed out that the government is still subsidising social housing but doing it via the housing benefit bill (i.e. revenue-funded) and there is an increasing number of tenants on partial HB as they are already in work.

It also expressed exasperation at the lack of joined up government thinking about reducing the benefit cap. The problem with higher rents particularly in the Southeast of England is that those who would normally be eligible for a housing association home are not going to get access to the housing benefit levels they need. HA_2 currently has approximately 65 per cent of its tenants on either full or partial housing benefit. It expects there to be a continuing increase in the housing benefit bill.

On the low level of bidding in the 2015-18 AHP HA_2 reflected that the use of the affordable rents product for London-based housing association was not attractive because of concern that 80 per cent of market rates are not affordable rents. HA_2 is also a little bit concerned about this but it does not operate in areas where the market rates are as high. In addition, only 4 per cent of its stock is at affordable rent levels; and approximately 15 per cent of voids are converted to affordable rents from social rents on a per annum basis.

5.3.2.3 **Theme 4 – exploring other funding sources**

As already pointed out, HA_3 had tight limits and oversight on its funding through the business plan renegotiation process. HA_1 reported that it had raised £60 million in debt through a private placement last year. This coupled with a lack of bidding in the AHP 2015-18 means it is financially robust and has no issue attracting loans.

HA_2's existing funding arrangements only allow it to develop 9,200 (of its targeted 12,000 homes) before 'hitting debt covenants'. It is looking at other ways of funding the shortfall 'which maybe by off-balance sheet and joint ventures and other funding'. It has a debt per unit loan covenant which says that it cannot exceed £35,000 of debt per home owned by the association. Similar to HA_3, this funding was put in place in 2007 and it has not tried to renegotiate it as 'the funding drawn down of £0.5 bn. is at very low pre-credit crunch margins'. These margins are at least one per cent below those currently available. Therefore HA_2 'want to avoid putting another £5 million on its bottom-line'.

HA_2 is facilitating local authorities who want to build but do not have development teams in place. Any homes developed in this way will count towards its 12,000 target but will not be owned by HA_2 and so will not count against its debt covenant. It is also developing market-level sales which are estimated to rise to around 300 per annum.

HA_2 recognises there are many institutional investors who have long-term liabilities, such as pension funds; and there is a good match with housing associations that have long-term assets that will generate an income for a very long time. This creates the possibility of joint ventures with an investor where there is a management agreement back to the association. This is the sort of innovative scheme it is looking at developing. These joint ventures could be either new builds or a tranche of its existing housing stock, a variation of the sale and lease-back schemes.

RB_1 reported a growing concern in policy and regulator circles with such schemes especially where there is an index-linked return involved. Effectively the regulator has proscribed such schemes in the sector.

HA_2's other sources of funding include market sales. These were commenced around three years ago and it sold just under a hundred in 2013. 'The only reason we do market sales is because it generates surpluses that we can put into our affordable homes programme'. Currently it aims to make surpluses of 11-12 per cent on each property sold. HA_2 reported that 'in broad brush terms, if we sell a property at £200,000 and make a surplus of £25,000 that supports the development of one new affordable home'.

HA_2 is also selling a proportion of void properties (120 p.a. out of 2,000 to 2500 voids per year, i.e. about 5 per cent). Prior to the AHP it had never sold voids. Currently, the voids average about £75,000 on properties that have little book value. This results in supporting the development of three new affordable homes.

For, HA_2 the £25,000 is the key number, as it represents the lost government grant under the Affordable Homes Programmes moving from £40,000 previously to the current level of £15,000 per unit on average.

5.4 Scotland Stakeholders

5.4.1Government bodies

5.4.1.1 Theme 1 – changing nature of government subsidy

There have been a number of fluctuations in the level of government subsidy over recent years. The Scottish Government published ‘Firm Foundations’ in 2008, which made two key recommendations - that HAs should compete for subsidy and that government policy should focus on helping good developers (which could sub-contract smaller HAs post-development).This led to grants falling in 2010 to £40,000 for HAs. However, despite the competition in the system development slowed, (despite capacity the risk averse culture with HAs meant development reduced). Therefore in 2013 grants were increased to £58,000 for HAs and £46,000 for Councils leading to an increase in development.

5.4.1.2 Theme 2 –TCI-equivalent measures

Benchmarks are determined in Scotland by reviewing activity over the last five years and assessing the costs accordingly. There are three classes of unit depending on where they are being built Urban, Rural and West Rural. Each Rural development receives £1,000 extra per unit and each West Rural receives £10,000 per unit as these tend to be developed in the Highlands or Islands. There is also an extra £4,000 paid to the developer if the house is built to a higher environmental standard.

5.4.1.3 Theme 3 – debates around supply of social housing

A number of banks are entering the Scottish market for the first time, many of whom have seen the scale of lending in England and identified Scotland as a growth area for business. However, there are a number of structural differences between the sectors in England and Scotland – scale being the most significant of them. In Scotland, 97 out of 162 registered RSLs have stock of less than 1,000 units, while only 8 have more that 5,000 units. Of these 8 RSLs, only Dumfries and Galloway Housing Partnership (who own 10,500 units) and Glasgow Housing Association and the Wheatley Group (at 45,000 units) come close to the scale and size of the large English associations.

There have been a number of reasonably successful and innovative new initiatives in Scotland, such as the National Housing Trust - which does not supply permanent rented homes – and the on-lending to housing associations by Councils such as East Lothian. There are also offerings such as Carduus, a private bond market initiative which is gaining sector knowledge, but has come up against the issues of scale and how to aggregate demand and smaller loan requirements. The Housing Finance Corporation has also initiated through UK government guarantees, the Affordable Housing Lending Programme using EIB bank funds. However, progress in Scotland is hard to gauge – size of tranches at a minimum of £5m and take up elsewhere are probably the reason.

5.4.2 Housing associations and representative bodies

Three housing associations were consulted with:

- HA_1 is a large-sized association with a stock of nearly 75,000 homes and have developed circa 1,000 new homes since 2003. They also manage a £1.2billion programme to modernise 70,000 former council homes transferred to them;
- HA_2 owns and manages over 2,500 homes for social rent and factors a further 1,600 privately owned properties within an area of Glasgow. They are a developing HA and have a portfolio of social rent, mid-market rent and shared equity developments; and
- HA_3 owns and manages 2,400 homes in a largely rural area. They have a programme of building new and refurbished homes for social rent and shared ownership.

In addition, two representative bodies (RB_1 and RB_2) in the housing industry covering social housing were also consulted. RB_1 represents and supports Scotland's housing associations & co-operatives and RB_2 is the professional body for people involved in housing and communities.

5.4.2.1 **Theme 1 – changing nature of government subsidy**

The level of HAG fell in 2008. Prior to this, government subsidy levels were 65-70% per unit, depending on size/location. Both RBs reported that the cuts in government subsidy stopped some HAs, particularly the smaller ones, from developing as the risk was too great. Some of the larger associations were able to continue with developments as they could absorb the risk into the overall business, while others halted their improvement programmes in order to self-finance the shortfall. RB_1 campaigned to government to increase the funding as the slow-down in building was unsustainable.

The reduction on the level of HAG also came at the same time as the banking crisis when banks both restricted their lending and changed their products on offer. The margins of bank lending changed dramatically and lending terms fell to 5 or 10 years.

HA_2 and HA_3, as smaller associations, both halted their social housing development programmes as a result of the cut in government subsidy. They reported that it was simply not financially viable with the reduced level of grant and the restrictions in bank lending as a result of the financial crisis. Both have reinstated their development programmes following the revision of the grant level in 2013.

5.4.2.2 Theme 2 – Views on Benchmarks

In July 2013, the average grant per unit was increased from £40k to £58k (this was benchmarked against the levels in Wales).

HAs are generally content with the current benchmarks. They believe they afford a degree of flexibility as there is some recognition of the higher costs of some schemes such as rural schemes (they have up to £72k), higher land prices and there is an additional £4k for meeting higher green standards in new builds.

5.4.2.3 Theme 3 – debates around supply of social housing

Both RBs were of the opinion that any decisions on the further devolution of power to the Scottish government, following the referendum in September 2014, could have a huge impact on the sector. Until the outcomes of the Smith Commission are known, there will remain a large degree of uncertainty over any future policy changes. This is considered to be a bigger risk to the sector than the potential impact of welfare reform. In fact, RB_1 thinks the negative impacts of welfare reform have been 'overplayed'. One of its association members took part in a trial of Universal Credit and it didn't see any impact in the incidence of tenants entering rent arrears. RB_2 expressed concerns over the perception that welfare reform will raise the risk profile of lending to housing associations. It worries that banks will use this as a reason to raise margins in lending just when lending conditions have returned to more favourable terms.

RB_1 stated that there are a number of issues with the Regulator in Scotland. The Boards of its member associations are scared of regulators and are very risk averse as a result – this was also highlighted as an issue by the HAs. The Regulator also has a strong focus on encouraging associations to merge, which RB_1 thinks is to the detriment of the sector. Scotland's housing associations are all very different organisations, yet they are treated like they are homogenous.

5.4.2.4 Theme 4 – exploring other funding sources

Traditionally the HAs obtained private finance from banks relatively easily and at favourable rates. However, the length of terms has decreased from 30 years to 5 or 10 years. Recently, it has become more difficult to obtain finance from banks on reasonable terms and this has prompted HA_1 to explore the bond market to finance new build programmes - it anticipates the costs to be less than the bank finance accessed in the past. HA_1 recognise that bond finance works for them as they are a larger HA and have the necessary scale that makes it viable – this is not the case for the majority of HAs in Scotland who are much smaller.

Both RBs outlined in detail how financing of the sector has evolved over time. They described how the financial model for the building of new housing association homes for the last 25 years has been predicated on housing associations using a combination of subsidy and private sector borrowing to provide the capital cost of a house. The Scottish Assured

Tenancy regime, latterly the Scottish Secure Tenancy, gave housing associations the freedom to set rents and provide for rent increases to meet costs and repayments over the lifetime of any private loan. At a ratio of 70% subsidy and 30% private borrowing, the model worked and enabled low social rents to be charged to meet the needs of the sector.

Banks and building societies were happy to finance this model to the extent of £ 4bn over the 25 years, building some 120,000 new homes in all types of community. Risk was low, gearing acceptable and margins very competitive as the four main players, Royal Bank of Scotland, Bank of Scotland, Dunfermline Building Society and the Clydesdale provided the majority of funds. Some associations did look at more inventive options such as the Housing Finance Corporation, but the business driver to innovate was not present at that time, as the system was working well and was well understood by all parties.

However, this landscape changed with the financial crisis in 2008. The banking sector in Scotland was badly hit - the Royal Bank of Scotland and the Bank of Scotland (who were particularly exposed in the residential property market) were subject to public bailouts; the demise of the Dunfermline Building Society in 2009, and its subsequent transfer to the Nationwide Building Society, also caused significant concern because of the scale of lending to the sector (at £500m it had the second largest exposure).

RB_1 recently conducted research with its member housing associations to gather views from the sector on private finance, how the current capital funding system is operating and current barriers to lending to housing associations.

This revealed that many associations are still using pre-2008 negotiated facilities and others were negotiating their way around covenants – either not doing any new development or small scale self-funded projects which responsibly avoid covenant breaches. Many small/medium sized associations wanted to carry on building. Whilst some had faced up to the bank covenant issue and negotiated modest increased facilities with existing lenders, few, if any had secured innovative finance from new sources (such as pension funds, bonds or leaseback deals). However, RB_1 report that there are recent signs that some of the larger housing associations may be able to begin accessing these sources, such as the Link £45m private placement and the Caledonia/Hillcrest GB Social Housing Bond both announced in April 2014, but the scale of these deals defeats the smaller housing associations who may only want to borrow £2m to £3m.

RB_1's research found that the most commonly cited difficulties in raising new sources for housing associations are: complexity of deals, lack of certainty as to what new finance entails and the requirement to obtain previous lender consent. The range of responses from the sector was mixed, but when combined with questions about the size of each housing association investment programme going forward, the following conclusions emerged as issues from RB1's research:

Area	Issues
Scale	• Most projects are modest in size meaning that large scale funding tranches are not useful; • Not able to take advantage of collaboration and economies of scale as a result of the operation of the current capital finding system; and • Not able to cross-subsidise with other tenures (i.e. shared equity and mid-market rent) and assist viability.
Flexibility	• Back book issues and covenants, re-pricing and restrictions on freedom to borrow from other sources inhibited new developments; • Length of loans – while some lenders were extending terms of new borrowing to 15 years, this was not universal and depended on the continuation of UK government initiatives such as Funding for Lending; and • Amount of equity cover required and availability of unencumbered stock differed for each housing association
Cost	• Interest rates, fees and due diligence costs were hugely increased and the process to release loans took a long time.
Risk	• Cash flow projections which relied on uncertain assumptions and risk deterred board members from considering new finance sources. This was coupled with significant other risk factors such as rent levels and the impact of welfare reform on sector business plans; • Inability of the finance market to come up with products that fit business plans in terms of risk, tenure mix and size of facility; and • Inability to land bank new sites or programme manage beyond 12 or 24 months because of lack of certainty, which then impacted on the confidence to develop and invest in new projects.
Complexity	• Difficulties of aggregation – lining up associations and lenders in multiple transactions; and • Poor explanation and documentation for new and innovative products, to suit Scottish law and Scottish market.

RB_2 believes that access to bank finance is beginning to improve in Scotland for housing associations. The products on offer are becoming more favourable and ‘a better fit for the housing association market again’ – terms are increasing to 15-plus years and margins are falling. They have also seen some new banks enter the Scottish market for the first time which they believe shows confidence in the housing association market in Scotland:

- Triodos Bank (a bank based in the Netherlands) has recently lent to a number of smaller associations. It lends smaller amounts, up to £5m, so is well-suited to the requirements of smaller associations;

- Airdrie Savings Bank (an independent savings bank in Scotland) also lends smaller amounts, up to £2m, and has expressed interest in lending to housing associations; and
- Svenska Handelsbanken (a Swedish bank) has been in talks to offer loans to housing associations, but no deals have been agreed as yet.

5.5 Wales Stakeholders

5.5.1Government bodies

5.5.1.1 Theme 1 – changing nature of government subsidy

Due to cuts in public expenditure, the SHG fell from £75m in 2011-12, to £60m in 2012-13 to 58m in 2014-15. The Welsh Government has been examining ways in which the supply of affordable housing can be expanded without large increases in subsidy. This has included the introduction of a number of innovative funding models to support housing development through partnerships and joint ventures with Housing Associations, local authorities and private providers of both market and social housing. This has included support for the Welsh Housing Partnership - a collaborative funding vehicle, jointly owned by four housing associations that acquire properties and lease them back for intermediate rent. The project received SHG, but the majority of the finance came from a private source (the Principality Building Society).

The Welsh Government also introduced the Housing Finance Grant scheme, which has been very successful. This was set up to support the building of 1,000 affordable homes through a large scale lending partnership arrangement between 19 Welsh RSLs and a private finance group. The Welsh Government committed a £4 million annual funding stream for a 30 year period, from 2013-14, to assist the RSLs with repayment of this finance.

5.5.1.2 Theme 2 –TCI-equivalent measures

Acceptable Cost Guidelines determine, on a community council area basis, what is considered to be the maximum cost to develop a particular type of social housing unit. The level of SHG paid towards each is at a rate of 58% of this maximum cost. Schemes at over 96% of ACGs are looked at in more detail. However, they are not entirely ruled out and there is flexibility for HAs to justify the higher costs associated.

Wherever possible, the Welsh Government should be aiming to provide a lower level of subsidy in order to maximise the overall number of affordable homes being delivered through the SHG programme. However, it recognises that this is a balancing act, and if the level of subsidy is too low then it will not viable for HAs to develop. They are aware that in many cases, the maximum costs do not represent the actual costs of development in rural areas. There are potential issues inherent in this that could lead to a shortage of social housing in rural areas, or HAs having to charge higher rent which would lead to higher levels of rural poverty.

5.5.1.3 Theme 3 – debates around supply of social housing

The Welsh Government is working to address a number of issues in developing longer term approaches to supporting investment. The first is to develop a clear understanding of the demand for market and social housing. This includes updating household projections to identify housing requirements across tenures and regions. It is also researching regional differences in the cost of provision and will, therefore, have a better understanding of how to set appropriate subsidy levels.

The Welsh Government is also aware of the housing association sector's concerns around welfare reform. This was the impetus for the inclusion of the Smaller Properties Programme in SHG for 2014-15, with the aim of providing smaller properties to mitigate the impact of the bedroom tax.

5.5.2 Housing associations and representative bodies

Two housing associations were consulted with:

- HA_1 is one of the largest in Wales, owning and managing 9,000 properties. It is a developing HA;
- HA_2 manages 9,500 homes in many local authority areas across Wales, with a large proportion in rural areas. They are also a developing HA and built 70+ new homes in 2014.

In addition, one Representative Body was consulted with - RB_1 represents housing associations and community mutuals in Wales.

5.5.2.1 Theme 1 – changing nature of government subsidy

RB_1 spoke about the significant reduction in the Social Housing Grant (SHG) funding over the last few years. This fell from £75m in 2011-12 to £60m in 2012-13. The SHG budget for 2014-15 is £54m - this includes an additional £5m to provide smaller properties to mitigate the impact of the bedroom tax.

There was consensus from the HAs and RB_1 that the SHG programme is essential to support the development of new social housing. Social rented housing requires the highest subsidy of SHG, typically 58%. If the sector is to ensure socially retuned properties in the future are truly affordable, then some form of subsidy is required There are concerns that any further cuts will reduce future developments and lead to shortages of social housing. .

5.5.2.2 Theme 2 –TCI-equivalent measures

Acceptable Cost Guidance figures (ACGs) are used as a guide for all schemes developed with SHG. These figures, based on Community Council areas, indicate the acceptability of scheme costs for SHG purposes and include all qualifying development and acquisition costs and key supplementary on costs. WAG expects the majority of schemes to be capable of being produced at or below ACG - schemes in excess of 96% ACG will receive technical scrutiny and any with costs over 120% will generally not be met by the WAG for general needs schemes.

RB_1 is generally supportive of the approach. However, it stated that its rural housing association members struggle to build within these limitations set. This is due to higher costs of building in remote areas and reduced economies of scale as they are always smaller schemes.

Both HAs also highlighted concerns about perceived failure of ACGs to take account of the additional costs associated with very small, often remote rural schemes and this is holding back supply. They also reported that opportunities for using cross-subsidy from market housing to fund affordable housing are restricted: *"We have to input a considerable level of private finance into our social housing schemes. To achieve this, we have to borrow against existing housing stock. Borrowing is becoming harder and our gearing is reaching its limit".*

The issues are also compounded in rural areas by a lack of sites, high landowner expectation on price and out-of-date local plans on housing need. They feel that, overall, the ACGs limited the effectiveness of SHG in rural areas and would like more flexibility in this area.

Both HAs also noted that new Acceptable Cost Guidelines were published earlier this year without prior consultation with relevant stakeholders.

5.5.2.3 **Theme 3 – debates around supply of social housing**

RB_1 report that there are approximately 70 housing associations, responsible for around 158,000 homes, in Wales. Around half of these associations are building new housing. The sector has been successful in meeting targets for new builds - by March 2010 the social housing sector had exceeded the target of 6,500 new housing units and achieved a total of 6,707. RB_1 attributes this success to the development of more innovative ways of accessing finance (combined with the SHG). It believes the establishment of the Welsh Housing Bond was also instrumental in stimulating development following the economic crisis.

However, both RB_1 and the HAs reported a number of concerns about the impact of welfare reform.

HAs have a concern about the incorporation of housing benefit into a new universal credit. In effect, tenants will be paid monthly in arrears, which will impact on income streams. There is a concern that lenders will see HAs as an increased risk and this will create additional costs for accessing private finance. They are also concerned that this may impact on wider issues, such as homelessness and increased voids.

However, they consider a bigger threat to be the cut in housing benefit for people of working age who under-occupy social housing (commonly referred to as the 'bedroom tax'). More properties will become void if people cannot afford to live in them due to their size. There are a number of costs associated with this – the cost of finding new homes for these tenants and the cost of preparing the void for new tenants. They expect many properties to become long-term voids due to the mismatch between house sizes and family sizes. In some cases it will also be cheaper to rent a smaller property in the private sector than a larger property in the social rented sector.

HA_1 reports that the demand for one and two bedroom properties has already begun to increase in anticipation of this. It recognises that the SHG budget for 2014-15 includes an additional amount to provide smaller properties, but this does not address the issues it will encounter with existing stock that will become void.

Another key policy change that may impact on the sector is the introduction of the Rent Policy. This limits annual rent increases to the Consumer Price Index plus1.5% As this was only recently introduced (April 2-14), the impact is still unclear as yet. However, the HAs have concerns that this will impact on their revenue projections and ability to raise finance. RB_1 would prefer HAs to have more control over their rent setting. Its member HAs have modelled the impact of rent increases and have shown that an increase of 3% could increase supply by 1,000 units.

RB_1 expressed concerns that the Welsh Government should not follow the approach being taken in England where most new affordable housing is provided at intermediate rent (i.e. up to 80% of market rental levels) and existing social rented housing is being turned into intermediate rent when it becomes vacant to meet general housing needs. While it accepted that intermediate rental model is an important part of the housing sector, it does not want this to take the place of traditional social rented housing.

Both HAs also report that waiting lists have increased year-on-year, as it true across the sector. They have a concern about meeting housing need and the possibility of creating a growing group of 'in-between' households - those who are on low income and need a social house, but struggle to afford market level rents.

5.5.2.4 **Theme 4 – exploring other funding sources**

Banks had been very risk averse in their lending since 2008. However, RB_1 have seen the appetite for banks to lend is beginning to return. It reports that the terms of lending to its members has increased from 5/10 years to 25/30 years – the level they were at before the economic crisis. This was also echoed by the HAs.

RB_1 welcomed a number of innovative initiatives that have been introduced in Wales to provide access to funding. It supports a move away from traditional loans, to special purpose vehicles and bond issues, but that the sector needs Government Support, such as the Welsh Housing Bond. This is the housing associations in Wales tend to be smaller and could not access the bond market without support. It believes the Welsh Housing Bond has been very successful and has attracted a mixture of larger and smaller housing associations.

HA_1 also spoke of the Welsh Housing Bond, but felt that it has simply replaced the cuts in public subsidy and does not provide additional money.

RB_1 also welcomed the Welsh Housing Partnership that provides homes at an intermediate rent (these are existing properties purchased by the partnership). It believes that it justifies public investment based on the leverage it has achieved – for every £1 received, it is levering a further £4 of private money.

5.6 Banks and Finance Providers

B_1 at UK level has around 30% of the market with outstanding debts of £12 billion to the social housing sector. However, in NI it has not historically been a core activity, although it is seeking to grow its portfolio and has already developed a number of relationships with NI HAs. Currently B_1 has less than 10% of the local market with £624 million of debt. Demand for finance has increased significantly over the last 10 years as the supply of grants has decreased but development targets increased. However, HAs remain an attractive investment to banks given their robust business models.

B_2 is an industrial provident society founded by the social housing sector to mediate institutional funding. They are the largest distributor of European Investment bank funding to HAs. It currently has £3.5 billion in lending to 150 HAs across the UK with plans to increase this over the next number of years to £7 billion.

B_3 is the biggest lender to the sector in NI and has lent over £300 million to HAs over the last seven years.

5.6.1 Finance lending to HAs

B_1 indicates that the recession did have an impact on the terms of loans offered to HAs which have reduced from 25 years to 5 years in most cases. B_1 stressed that this is not a result of banks taking a different view of the sector as an investment, but a measure put in place to act as a break and enable banks to sort out their balance sheets.

In terms of what encourages banks to lend to HAs, B_1 mentioned that inspection regimes are very important as these act as a comfort to the bank.

B_2 only came to the NI market 5 years ago and previously viewed it as an insular market served well by its local banks. Initially offered EIB funding and then bond finance (acting as an aggregator), which was a first in the local sector. B_2 thinks that entering the market when it did was both the right time for it and the right time for HAs as the behaviour of banks changed after the credit crunch. The NI market was low geared and safe financially but banks were having to factor in more risk regarding demand (for housing in general) and potential changes in the regulatory regime.

B_3 stated that reduced public sector spending has increased appetite for lender funding. HAs are also conscious of the state of the housing market in general, particularly costs and land values and want to make the best of the opportunity to develop. Strong management teams and boards are also increasing their risk appetite which is a positive step in the banks view.

B_3 also mentioned that the inevitable impact of the recession was a decrease in the length of terms offered to HAs and this unlikely to change in the short to medium term.

5.6.2 Alternative sources of Finance

B_1 mentioned THFC and the bond and capital markets as the main alternatives to bank lending. B_1 thinks that in the future HAs will be using bank finance for the development stage (i.e. 5 years) and then refinance through the bond market as HAs will be able to get the necessary 25 year terms for their long term investments.

B_2 provides the main alternative to bank lending and does not foresee any other alternatives developing in the near future.

B_3 mentioned capital markets, private placements and the European Investment Bank as the main alternative sources of finance. However, this is really only available to the larger HAs. B_3 thinks a mixture of funding is the healthiest way for HAs to finance development, with longer term bond funding supported by short term bank lending.

5.6.3 Wider Issues impacting the sector

Welfare reform is an unknown for B_1, until there is agreement and policy decisions are made banks will have to adopt a cautious approach. There is potential for income lines in terms of arrears and management costs to go up and this would have to factored in to any lending application. Lending to HAs is based on assumptions of HAs being able to set their own rents and rents will grow over time. If HAs were unable to do that there would be obvious concerns about their ability to repay.

B_2 is aware of some potential moves towards consortia, this is less preferable than consolidation as in any consortia lenders must consider each HA on an individual basis because it is fundamentally mortgage finance. It is not security lending, decisions will be made based on ability to repay. If anything, consortia are problematic as they add a level of complication to the process.

B_2 also thinks that Welfare Reform is the biggest potential adverse credit risk in the sector. HAs need time to move beyond big social agencies to social enterprises. Collection and collectability of rent is very important. There is also a danger of politicians being involved in setting rents and this presents a tension between solvency and rent control. There needs to be an independent regulator and independent rent setter similar to England.

Another issue that could impact the sector is increased commercialisation. B_2 states that this has already happened in England and, while necessary when grant levels get very low (the need for cross-subsidy) it exposes HAs more to market forces and can increase the risk associated with lending to them. This would inevitably affect supply and the possible solvency of HAs,

Welfare Reform is creating a degree of uncertainty within the sector which is creating an issue for B_3. The potential implications or mitigating measures are not the issue, instead the lack of decisiveness on the part of the NI Executive as to what is going to happen makes business planning difficult, banks need certainty to lend. Changes to the rent setting regime are not necessary in B_3 view as it is satisfied with the current arrangement.

B_3 would also like to see more transparency regarding the future of NIHE. Until there is clear direction as to what is going to happen, they can't decide if future stock transfers are a risk or opportunity to the sector.

However, simply giving more money to build houses does not solve the problem. The money has to be given on terms and conditions which mean projects can be built at affordable social rents. The rent from a social rented house can only raise enough money to borrow a third of the cost of building from a bank or other private source. If housing associations only receive a further third of the cost by way of grant, the missing third prevents the house being built unless subsidy can come from somewhere else, and options are running out for housing associations.

Many housing associations – particularly small community based or rural associations – simply cannot develop at the lower grant levels and have opted out of development all together. While the Scottish Government says that they are prepared to make concessions for rural high cost projects, the lack of certainty means the risk of working up projects, which can be as long as three or four years, is too great and too costly for these small associations to bear. Increased grant levels will see houses being built where they are needed.

Banks currently demand that existing stock is mortgaged when loans are given, and housing associations are running out of unencumbered stock.

Banks are also undertaking far more due diligence than previously, as they believe their exposure is greater with reduced grant levels. If grant levels were raised, the borrowing capacity of housing associations would be greater, enabling more houses to be built.

6 CASE STUDIES

6.1 Introduction

In order to better understand how the funding regimes have impacted on the ground in each of the jurisdictions, a HA in each country was selected as a Case Study. The following sections detail the findings from each Case Study.

NB: Case Study HAs have been anonymised to protect any commercial information provided.

6.2 England case study

6.2.1 Background

The English Case Study HA is based in the North of England. It was formed in 1999 following a large scale voluntary transfer from the City Council, and currently owns and manages 3,626 homes in the city, predominantly within two areas covering a 5-6 mile radius.

Stock numbers have reduced from the original 4,377 homes at transfer through Right to Buy (RTB) sales and a number of selective demolitions, but in recent years the number of homes it owns has also increased through acquisitions from other providers, new development, RTB buy backs and mortgage rescues.

Table 6:1: Accommodation in Management and Development, 2014

	Number
General Housing	3,503
Supported Housing and housing for older people	120
Total Accommodation managed on behalf of others	3
Total owned and managed	3,626

Source: Report and Financial Statements, 2014

As a community based HA, it has a strong socio-economic ethos[40]:

We are creating places people want to live by tackling anti-social behaviour, building skills and opportunities for residents and finding innovative ways of involving people and establishing private and public sector partnerships to support the provision of new homes of varying tenure.

[40] Report and Financial Statements, 2014

6.2.2 Financial Position

As of the end of the 2014 financial year, the HA had loan facilities with Cooperative Bank plc and Nationwide Building Society of £31m (comprising loans drawn of £25.2m with £5.8m remaining undrawn) and £5.5m in cash reserves. It had also negotiated new loan facilities totalling £35m, to be made available in 2015.

Approximately 71% of its drawn debt is at fixed rates of interest, therefore minimising exposure to increases in borrowing rates. Loan covenants have been made in relation to the amount of borrowing compared to property values, income compared to expenditure and interest payments. In all cases, it comfortably exceeds loan covenants and expects to do so into the future.

In 2014, £494k in proceeds was received through the sale of right to buy properties. Fourteen properties were sold at an average discounted price of £35k. A fall in property values has been experienced throughout the area the HA operates in.

The HA's business plan has been stress tested under several scenarios that may affect impact, to ensure that it is robust, and that they are financially adaptable under worsening economic conditions. It has set the following aims to support its business plan:

- Net worth is expected to increase from £19.7m in 2014 to £24.8m in 2018;
- Asset Cover (the degree to which asset values exceed loan values) is expected to decrease from 308% in 2014 to 199% in 2018;
- It expects to generate a net income stream of £18.1m each year on average for the next five years;
- Interest cover (the ratio of the surplus plus depreciation divided by the interest payable) is projected to increase from 472% to 487% in the next three years; and
- Gearing (the ratio of the loan divided by the fixed assets at cost) is expected to remain unchanged at 23% over the next three years.

6.2.3 Development Programme

The HA's has received grant funding from the HCA of £1.5m through the AHP (2011-15) and AHP (2015-18) for their development programme. Total development costs were £5.6m. Subsidy levels per AHP round were:

- There were 26 units completed in 2013-14 with grant funding from the AHP (2011-15). This equated to an average grant of £19,000 per unit (it is also important to note that development costs for this scheme were lower as the HA owned the land developed); and
- A further 30 units have been approved under the AHP (2015-18) with an average grant of £34,000 per unit. The HA is also applying for more grant under the continuous market engagement terms of the AHP (2015-18).

The remaining development costs were financed internally through:

- Loan facilities;
- Affordable Rent conversions – 20 existing homes were re-let at affordable rents in the 2011-15 round, generating additional income per year; and
- Cross-subsidies through Disposal Proceed Funds and recycled grant from RTB sales.

6.2.4 Views on the Funding of Affordable Housing in England

The HA have received a larger per unit grant in the second round of the AHP (2015-18). They believe this is due to market conditions as many HAs didn't bid in this round due to their experiences of the first round i.e. AHP (2011-15).

It believes that the HCA 'created' a perception in the 2011-15 round that HAs had to bid low. This round was also highly subscribed. However, due to sector-wide concerns around falling grant levels and wider economics issues such as welfare reform, HAs were reluctant to bid in the 2015-18 round. This reduced competition has resulted in higher grants for those applying.

All the HA's new build through the AHP has been Affordable Rent – this is charged at the maximum level of 80% of market rent. The majority of its older stock has remained social rented, aside from the 20 Affordable Rent Conversions to make up for grant shortfall in the 2011-15 AHP.

The HA's Board were initially reticent to introduce the Affordable Rent model. However, it believes the impacts on tenants are minimal as the differential between market and private rent in their area is not large. The HA is comfortable that they are protecting the interest of their tenants - all new tenants are subject to affordability checks to ensure they can afford the rental charges.

The HA is aware that the Affordable Rent is more of an issue for some HAs, especially in the south of England, where market rents are higher.

The falling level of government subsidy does impact on the HA and their propensity to develop. It attempts to manage this through strict procurement guidelines and close management of quality. It also owned the land it was developing during the first round of AHP, which makes a significant difference. With a grant level of £19,000 per unit, it would have required more internal subsidy, which would have been a struggle.

The HA recognises that they while they have been successful in the last two rounds of the AHP, if the level of grant continues to be cut, their Board will have to re-think the viability of developing and future new builds. It believes that development is just about achievable at the current level, but it couldn't continue with re-supply if the subsidy continues to be cut. Ultimately, at some point, the HA's financial situation and performance will be degraded to such a point where private lenders won't lend anymore. It also highlighted a number of constraints in its ability to raise finance through sources other than loans. As it owns properties in one of the most disadvantaged areas in England, it cannot generate sufficient income through market sales due to low property prices. They also ring-fence income from RTB sales, but this only covers 25-30% of the cost of a new home.

The HA also believes that the cuts in government subsidy have disproportionately affected smaller Associations across England. Larger HAs can off-set the grant shortfall through cross-subsidisation, diversifying their business and access larger amounts of finance and bonds. Smaller HAs do not have the capacity to do this.

6.2.5 Wider Issues Impacting on the HA's Development Programme

The HA reported a number of impacts of welfare reform. As it works in one of the most deprived areas in England, its tenants are particularly vulnerable to changes in the welfare system. Some tenants have already moved as a result of the bedroom tax - this impacts on the HA's void numbers. Rent arrears have not been affected as yet, but this is as a result of staff working more intensively with tenants to prevent them entering arrears.

The HA has performed a detailed analysis of the actual and future effects of welfare reform. It is adopting a number of strategies to mitigate the effects of these changes and provide support to tenants. However, providing this support to tenants has increased its running and transactional costs.

Welfare reform has also created a sense of nervousness around future borrowing terms and conditions. The HA is aware that the cost of borrowing will go up if its risk profile changes adversely. Although the changes have not impacted on lending terms as yet, it is concerned that it may do in the future, especially if its transactional costs increase any further.

Another concern raised by the HA is the Conservative Government's extension to RTB programme. It believes that this will create a challenging future - especially at a time when the sector is expected to build more, and with fewer subsidies. It feels that there are conflicting policy positions from the government.

6.3 Wales Case Study

6.3.1 Background

The Welsh Case Study HA was founded in the 1960s and has homes in 12 local authority areas across Wales. Its total stock (as at 31st December, 2014) is 9,741. This includes 8,567 social housing units and 1,174 non-social housing units (a combination of market rented, equity stake and homes managed for another HA).

Table 6:2: Units in management (at 31st December, 2014)

	Opening units	New Build	Mortgage Rescue	Sales	Closing units
General needs and retirement	8,194	75	2	(1)	8,270
Extra care	121				121
Scheme managers	19			(2)	17
Intermediate rented	36				36
Supported housing	101				101
Shared Ownership	22				22
Subtotal social housing units	8,493	75	2	(3)	8,567
Market rented	6				6
Equity stake	39	1			40
Managed for another HA	12				12
Subtotal non-social housing units	1,171	1	0	(2)	1,174
Total – owned and managed	9,664	76	2	(1)	9,741

Source: HA's Annual Report, 2014

6.4 Financial Position

As at 31st December 2014, the HA had borrowings of £128m. The HA has a total borrowing facility of £150m, of which £45m is in facilities which can revolve until 2018. These provide flexibility to the Association in that excess cash can be used to reduce the outstanding loans as an alternative to placing monies on deposit.

Its total interest cost in 2014 was £4.6m, up £0.2m on 2013 due to greater borrowing, whilst the average interest rate reduced from 4.3% to 3.9%. This has been due to careful management of the loan portfolio, with 35% of loans at variable rates to take advantage of the lower interest rate environment, and a favourable bond market environment.

In September 2012, the Department for Communities and Local Government (DCLG) launched the UK-wide Affordable Housing Guarantee Scheme, whereby DCLG will provide a guarantee to support debt raised by borrowers to develop additional new Affordable Housing. The Affordable Housing Guarantee Scheme is designed to lower the cost of borrowing for HAs to encourage them to bring forward additional supply.

The Housing Finance Corporation Limited (THFC) through a newly formed subsidiary, Affordable Housing Finance (AHF), was chosen to deliver the scheme to March 2016.

During 2014, the HA accessed £12.5m from Affordable Housing Finance (AFH) through a 28 year fixed rate bond at 3.8%. Following this, in early 2015, it accessed a further £12.5m from AHF, backed by the European Investment Bank (EIB), at a rate of 2.82% - one of the lowest 30-year fixed rates ever achieved by a HA in the UK. It also arranged a further £20m of revolving credit facilities with Santander.

The HA is operating within loan covenants. Gearing (defined as loan as a percentage of the sum of reserves and Social Housing Grant liability) as at 31st December 2014 was 40.0%. With the commencement of the schemes being developed with the HFG in 2014, gearing is rising more quickly than it otherwise would. Agreement has been reached with banks, which raises a 50% gearing restriction to a level which is unlikely to be reached prior to the loan expiring in 2026. A 60% restriction remains with another lender, which will not constrain existing development plans for the foreseeable future. The Association comfortably met its interest cover covenants and made a transfer of £2.0m to the major repairs reserve, from which it can be redrawn as necessary for interest cover calculation purposes.

6.4.1 Development Programme

The HA's current development programme is to build 300 new homes over the 2014-16 period. This is mixed tenure and includes: 212 social rented, 39 Extra Care, 9 Supported Housing, 7 Intermediate Rented and 33 Retirement Homes.

The HA completed 75 new builds in 2014-15, 65 of these were social rented and 10 retirement housing (accommodation for older people will increasingly become more of an area of focus for the HA's future development due to changing demographics and ageing population). Government subsidy, paid through the SHG, was received for this part of the development programme, at 58% of the total costs, equating to an average grant payment of approximately £65,000 per unit.

The remaining new builds in its development programme will be delivered as part of the Welsh Government's Housing Finance Grant initiative (a revenue grant which seeks to cover the additional cost of private borrowing over a 25 year period). The HA's concern with this if that it raises their gearing as there is no government subsidy and so is entirely private finance. The HA recognises its gearing is good enough to be in a position to take advantage of this, and that other Associations' gearing positions are not as good.

The HA has also received 'in kind' benefits when previously working with Local Authorities, though gifting of land. However, this was not the norm, and is not expected to happen again in the future.

6.4.2 Views on the Funding of Social Housing in Wales

The HA believes it is in a fortunate position as it can still access the SHG, but also has sufficient scale to access other sources of finance. It recognises that many smaller HAs in Wales are not in a position to do this and so are more reliant on government subsidy.

It has some issues with the inconsistent approach from the Welsh Government in terms of the availability of funding. Announcements are made at the start of the year about the level of SHG available, and then further amounts are announced mid-year. This creates very tight time frames in which to plan developments.

The HA believes that government funding is essential for the development of social housing. It reports that there has been an increasing tendency for Local Authorities to develop as they can borrow cheaply. This is creating potential conflicts with Associations in some Local Authority areas, which makes the government support even more necessary.

In terms of the systems in place to determine grant level, the HA has issues with how land values are calculated within the ACGs. It believes that the banding system is flawed, with arbitrary borders separating bands with no clear rationale for the land prices within each. Other than this aspect, the HA thinks the current system works well. Funding is usually paid in three tranches:

- Tranche 1: 100% of acquisition costs is paid upon acquisition;
- Tranche 2: full cost of development is usually paid up-front when starting on site; and
- Tranche 3: occasionally, whereby 5% of the development cost would be held back until the end.

The HA also highlighted the Welsh Government's increased focus on improving the standard of new build social housing. This inevitably affects the overall cost of developing a scheme, which is not always reflected in the cost the HA are required to provide it for. Higher quality specifications at the capital development stage also present higher maintenance liabilities for the lifecycle of the property, which the HA believes should be reflected in the grant level.

6.4.3 Wider Issues Impacting on the HA's Development Programme

The HA has seen the first changes brought about through welfare reform impacting on their tenants. The HA has worked intensively with tenants who need help, and have helped some more to more suitable accommodation. The HA recognises that the new system is in its very early stages and there are many issues still to be resolved, which will take time. It has not seen any impact on rent arrears as yet (again, this has been as a result of staff working with tenants who may be at risk of mismanaging direct payments). However, the HA is being prudent and has been modelling the potential impact of rent arrears. It has a concern that this may impact on future borrowing rates.

Another policy change that has concerned the HA is the Government's announcement on right to buy. The HA believes this will impact on their borrowing capacity in the future – particularly when accessing bond finance.

6.5 Scotland

The Scotland Case Study is a Registered Social Landlord operating in two Council areas in mid-Scotland. It currently owns 2,300 properties (the majority of which are social rent) and is estate manager to circa 3,500 private owners who have acquired their properties through Right to Buy. It was established in 1994 through a stock transfer, but did not register as a HA until 2007.

6.5.1 Financial Position

As of the end of 2013-14, the HA's turnover for the year was £8.6m, an increase of £0.582m on the previous year. Operating Costs increased to £6.8m, up 8% on the previous year.

The HA's total borrowing was £47.6m, this included a new £3m loan facility from the Royal Bank of Scotland to fund the Development Programme detailed in the section below. Interest Payable for the year totalled £1.75m, down £0.025m on the previous year, a decrease of 1.4%. During the course of 2013-14, the HA was able to access three month Libor rates for the new Royal Bank of Scotland loan and other recent borrowings which accounts for the fall in total interest payments[41].

6.5.2 Development Programme

The HA has a Development Programme to build 80 new homes between 2014-16 (56 social rent and 24 mid-market rent) through 4 schemes. Schemes 1 and 2 were completed in 2014-15, Schemes 3 and 4 are due to be completed in 2016.

A total of £3,094,830 SHG was provided through the Affordable Housing Supply Programme for this, across the schemes as follows:

Table 6:3: Funding of HA's Development Programme

[41] HA's annual report 2013-2014

		Total Development Costs	SHG
Scheme 1	18 mid-market rent units	£1,514,000	£350,000
Scheme 2	17 social rent units	£1,334,560	£613,000
Scheme 3	19 social rent and 6 mid-market units	£2,812,102	£1,015,830
Scheme 4	20 social rent units	£2,349,611	£1,116,000
Total		**£8,010,273**	**£3,094,830**

The majority of the remaining development costs were met through bank lending from the Royal Bank of Scotland, and a small proportion through internal funding from reserves.

The HA has diversified its business in the last number of years through the creation of a subsidiary Property Management company. This offers a range of property services for private sector landlords including: property management, letting, maintenance, landlord safety checks, and factoring services. This generates income that is re-invested into the HA.

The HA is part of a development alliance in one of its operating areas with two other HAs and the area Council (it operates as an individual organisation in its other operating Council area). The HAs share one Development Manager and have achieved a number of efficiencies through joint working.

6.5.3Views on the Funding of Affordable Housing in Scotland

Overall, the HA does not have any concerns over the current level of government subsidy. Having not been a registered HA until 2007, the HA was not previously in a position to apply for government subsidy in the form of HAG (its previous development experience had been limited to activities funded by New Housing Partnership Grant between 1998 and 2003, through which they received £6.3m to develop 298 new builds. It also built a further 16 mid-rent flats, entirely unsubsidised). It is therefore accustomed to building without HAG, but does believe that a reduction in the level of government subsidy could compromise the long term financial sustainability of HAs, or cause rents to rise to an unaffordable level, if development was to continue.

The HA finds the processes for determining the level of SHG (i.e. the subsidy benchmarks) to be overly bureaucratic and not transparent enough. It would prefer to see an individual assessment for each development, although recognises that this will be more labour intensive.

6.5.4Wider Impacts

The HA reports that the impacts on Welfare reform have been minimal on its tenants. However, it believes that this has in part been the result of its efforts to mitigate the impact - it has provided staff training and employed a Welfare Rights Officer to work with tenants. It does not believe that Welfare Reform will impact on its future borrowing capacity or risk profile – it has actually seen rent arears improve since the introduction of direct payments.

The HA has issues with the land available to them, which is largely brownfield. It also has concerns at the rate at which its local Councils are developing affordable housing themselves. This is creating competition in the supply of housing, and the Council is developing all available greenfield sites themselves. The HA raised concerns that responsibility for SHG distribution may be devolved to the Councils, as is currently the case in Edinburgh and Glasgow City Councils, rather than through the Scottish Government. It fears that this will further isolate HAs from subsidised developing as the Councils will prioritise their own developing.

7 EFFECTIVENESS OF GB FUNDING MODELS

7.1 Introduction

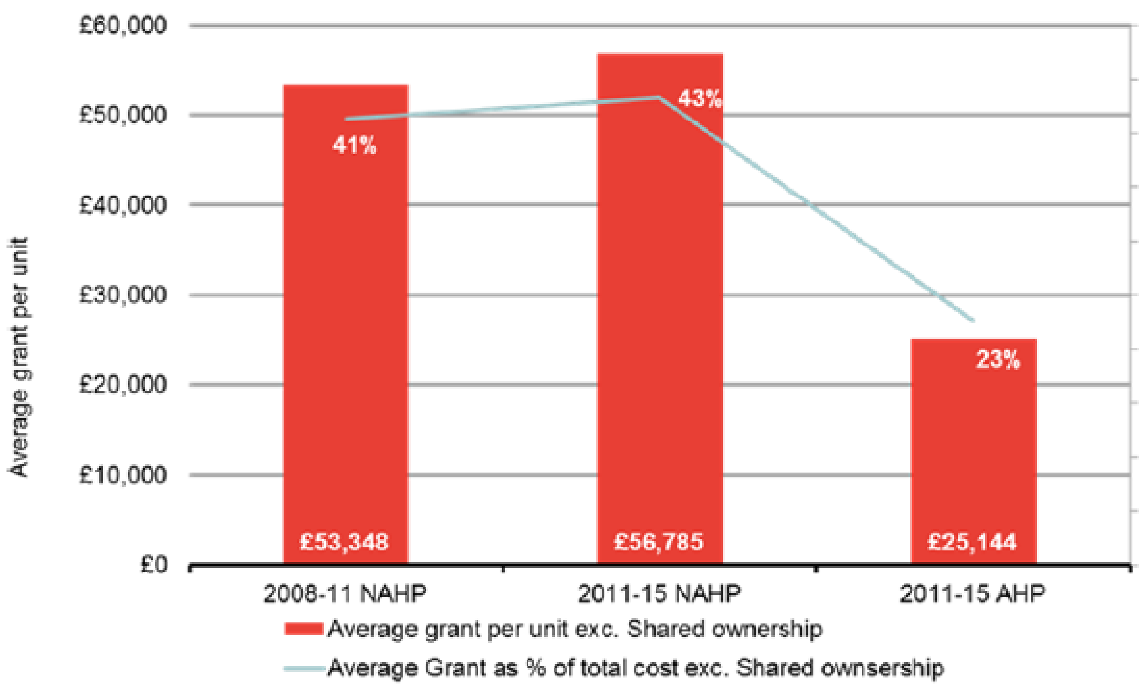
Housing is a devolved matter, and there are different approaches and objectives to delivering new social housing in each jurisdiction. This section outlines the effectiveness of each of the approaches and then considers how applicable each is to Northern Ireland.

7.2 England

The Affordable Homes Programme (2011-15) required HAs to bid for grant funding. The 2010 Spending Review announced that £4.5 billion would be made available to fund new affordable homes over the period of the Review - a reduction in grant funding from £8.4 billion in the previous Spending Review.

The grant rate has also steadily fallen, with an average 23% of the cost of a new affordable home funded by the AHP, down from 41% in the 2008-11 NAHP (as shown in the figure below).

Figure 7:1: Average grant rate per unit as a % of the total cost (excluding shared ownership)



The Affordable Rent model was also introduced in 2011, allowing housing associations to offer tenancies at rents of up to 80% of market rent levels within the local area. The intention of this was that the additional finance raised would be reinvested in the development of new social housing. This resultant income stream would also enable debt to be raised through bank and bond finance, thereby financing new build.

The AHP initially set a target to deliver 170,000 completions by the end of March 2015. Data released in June 2015 reported that 186,000 homes had been developed - 16,000 more than the original target. At the time of writing this report, figures were only available for 2011-12 and 2013-14. This shows that a total of 143,900 affordable homes were delivered, across a wide range of ‘affordable’ tenures (social rent, affordable rent, intermediate rent and affordable home ownership) as shown in the table below.

Table 7:2: Additional affordable homes provided by type of scheme, England

	2011-12	2012-13	2013-14
Social Rent	37,680	17,620	10,920
Affordable Rent	930	6,980	19,740
Intermediate Rent	1,920	1,070	790
Affordable Home Ownership	17,590	17,260	11,410
Total affordable housing	**58,120**	**42,930**	**42,860**

Source: DCLG (June 2015): Live tables on affordable housing supply

The available figures also show that of the 66,220 additional social rented housing, approximately 49,000 were new build - although these were largely carried over from the 2008-11 programme. Social rent new builds delivered via the HCA and GLA fell from 29,390 to 6,370 in the two years to March 2014. Commentators believe this is as a result of *“the deliberate switch towards new units being built for letting at Affordable Rent in order to sustain the current programme’s output targets, with its far lower grant rates.”* [42] Furthermore, a number of developments where funding was allocated through the previous NAHP as social rent tenure, were converted on completion (ahead of first letting) to affordable rent as part of an agreed programme of delivery through the AHP.

The promotion of Affordable Rent has raised concerns around social housing tenants being ‘priced out’ of certain areas with high market rents, while others are having their rent supplemented by housing benefit. Stakeholders have highlighted that the English model is basically a replacement of the capital grant subsidy with a revenue subsidy. The Affordable Rent programme also enables re-lets of existing social housing to move to market rent. This, coupled with the reduction in new build social housing, has raised concerns over the future supply of social housing. The guidelines in the HCA prospectus for the 2015-18 bidding

[42] Steve Wilcox and John Perry, *UK Housing Review 2014*

round were cited by one Stakeholder as confirmation of this. This states, in paragraph 204, that: "*Social rent provision will only be supported in very limited circumstances".*

With reduced public funding, housing associations in England have become more innovative in funding affordable homes, for example through cross subsidy from developing for market sales, increased debt finance and increased rents through the Affordable Rent programme. However, stakeholders have highlighted that many HAs are reaching their borrowing capacity.

An extension of the Affordable Homes Programme was announced as part of Spending Round 2013. Stakeholders have indicated reduced interest in this bidding round, possibly as a result of HAs concerns over debt ratios. Housing Association consulted with also highlighted that the AHP has overly complicated programme conditions for the amount of grant available – this has become a deterrent for many.

These issues have raised concerns about whether a social housing programme with substantially reduced grant rates such as this is sustainable, and deliverable, in the long term.

7.3 Scotland

The average grant rate in Scotland has fluctuated over time, as opposed to other jurisdictions which have seen steady declines.

The average grant was over £85,000 in 2007-08, but had been reduced through a revised subsidy calculation methodology to typically about £70,000 per unit by 2010. In 2010, the Scottish Government introduced a benchmark of £40,000 per unit for RSL developments, much closer to the flat rate maximum of £30,000 per unit which already applied for council house developments. The rationale was that government expected RSLs, like councils, to cross-subsidise their own developments where they could afford to do so.

Concerns were raised about the drastic cut in subsidy level and the sector's ability to build new social housing. A number of new financial pressures also faced the sector that didn't exist in 2010 including: potential increased costs and lost income through Welfare Reform; a growing pensions deficit; the effects of the VAT increase in January 2011; and other priorities, including commitments to enhance the quality and energy efficiency of existing stock. HAs stated that they would not be in a position to develop for much longer, or at all, without a significant increase in subsidy rates and/or rent levels.

Social sector building figures are shown in the figure below[43]. Between 2005 and 2012 the number of housing association completions generally fluctuated between 3,500 and 5,500 each year. From 2009, this has fallen year-on-year to around 3,000 per year. The number of approvals meanwhile fluctuated between 4,500 and 6,000 from 2005 to 2010 before falling

[43] Social sector housing consists of local authority and housing association (NB: housing association new build here relates to homes built for social rent and those built for low cost home ownership. It does not include mid-market rent which is included in the private sector figures).

sharply to between 2,000 and 3,000. The rate of approvals stabilised between 2001 and 2014. There were 2,470 approvals to end September 2014 - a 7% (168 homes) increase on the 2,302 approvals in the previous year.

Figure 6:3: Social Sector new build starts and completions, year to end September, 2005-2014

Source: Scottish Government (March 2015) Housing Statistics for Scotland, Quarterly Update

Based on the concerns of the sector, the Scottish Federation of Housing Associations lobbied government to reinstate subsidy levels at a level they considered to be sustainable. This resulted in an increase in the benchmark levels to of £58k per unit (based on a 3-person home). It is recognised that RSLs will still need to contribute their own financial capacity to secure delivery of most new housing developments, but that capacity would be used up at a much slower rate than under the previous reduced rates.

The changing trends in the average grant level and grant rate is shown in the table below.

Table 7:4: Historic Trends in Average cost per unit, grant per unit and grant rate

	2010-11	2011-12	2012-13	2013-14
Average Cost per unit	£117,720	£112,057	£109,976	£114,098
Average Grant per unit	£63,753	£42,083	£45,252	£55,385
Grant rate	54.16%	37.56%	41.15%	48.54%

Source: Scottish Government (January 2015): AHSP Out-turn Report for 2013-14

In terms of the model to determine grant levels, stakeholders believe that the Benchmarks are now at a realistic level following the revision upwards in 2013. They are content with the level of flexibility within the model with the as recognition of the higher costs of some schemes such as rural schemes, higher land prices and in meeting higher green standards in new builds.

They also feel that the current streamlined appraisal process has reduced the administrative burden for all concerned, whereas before, each development project was assessed independently. This previously detailed scrutiny of individual projects caused delays in future approvals and increased the workload for Scottish Government and RSLs alike.

Concerns about any future grant reductions were highlighted along with the impact this would have on HAs developing social rented housing. Given the typically smaller size of Scottish HAs, there is less scope for cross-subsidy from the mainstream rent base than in Scottish Local Authorities, or larger English HAs.

7.4 Wales

Social Housing Grant (SHG) is a capital grant made available by the Welsh Government to Registered Social landlords (RSLs) to provide new affordable housing for rent or for low cost home ownership. There has been a reduction in the SHG and grant rate over the last number of years.

In order to sustain the supply of new housing with reduced levels of capital subsidy, the Welsh Government has introduced a number of models to expand the output of intermediate rent homes (e.g. through the Welsh Housing Partnership – a government grant vehicle to lever private finance) and the stock of co-operative housing. Housing associations are also accessing capital markets and bond financing, with the backing of the Housing Finance Grant.

The majority of affordable housing provision by Welsh RSLs during 2013-14 continued to be social rented housing (1,166 units), accounting for 65% of all builds. The provision of intermediate rented units by RSLs has increased substantially over the last three years, compared with previous years, accounting for around a quarter of all RSL provision, whilst the percentage of social rented units provided by RSLs has decreased over the same period.

Figure 7:5: Affordable housing delivered by Welsh Registered Social Landlords, by tenure

Number/Per cent

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Number:							
Social rented	747	1,394	1,913	1,817	1,260	1,144	1,166
Intermediate rented	126	288	112	95	494	416	460
Shared equity	390	368	147	349	200	144	173
Total	**1,263**	**2,050**	**2,172**	**2,261**	**1,954**	**1,704**	**1,799**
Percentage:							
Social rented	59	68	88	80	64	67	65
Intermediate rented	10	14	5	4	25	24	26
Shared equity	31	18	7	15	10	8	10
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: Welsh Government (October 2014): Affordable Housing Provision in Wales, 2013-14

The level of grant paid is determined by the Acceptable Cost Guidance model – this sets an average cost of a new build based on size and location. The current grant rate is 58% of the ACG – this worked out as an average of £69k per unit in 2013-14.

Stakeholders consulted with considered the social housing grant essential for the delivery of social rented accommodation. There was a particular concern that the ACG figures do not take into consideration the often inflated land prices in rural areas of Wales which makes the cost of providing affordable housing in those areas significantly higher. This makes many schemes in these areas unviable.

Concerns were also raised about the promotion of the intermediate rent market. While they accepted that the intermediate rental model is an important part of the housing sector and has its place, they do not want this to take the place of traditional social rented housing, as is happening in England. Housing Associations are also seeing waiting lists for social housing increase and do not want social tenants priced out of an intermediate rent market.

7.5 Applicability of GB Models to Northern Ireland

The levels of government subsidy for new social and affordable housing vary significantly across GB. In England, grant levels have considerably reduced over the last number of years and were typically less than £25,000 per unit (23% grant rate) in the 2011-15 AHP. Whereas in Scotland, the grant levels for social rented housing have recently been increased to an average of £58,000 and £62,000 per unit (the higher figure being available upon satisfying certain energy efficiency criteria). The level of grant paid in Wales is approximately £69,000 per unit (58% grant rate).

HAs across GB have pursued a range of approaches in response to reduced grant funding, including:

- **Increased borrowing of commercial finance** HAs have increasingly been borrowing to fund new builds. The degree of gearing is increasingly becoming a constraint on the feasibility of new developments for some HAs. This is particularly true in England where the subsidy funding shortfall has pushed housing associations towards increased borrowing, with some HAs reaching their borrowing limits;
- **Cross-subsidising:** HAs are increasingly cross-subsidising new builds by developing market housing for sale, and transferring the surplus within the organisation to fund the development of new builds. Another way to fund this is through selling existing stock; and
- **Increasing rents:** Each jurisdiction has its own rent charging regime, with HAs having different levels of control over their own rent-setting. This is particularly true under the Affordable Rent Programme in England, whereby HAs can charge up to 80% of market rent for new builds and re-lets. This income stream has also enabled increasing levels of debt to be raised through bank and bond finance.

However scale does make a difference in many of these approaches. Being able to access funding from different sources of finance and investors is easier for larger HAs as they have the ability to cross-subsidise from market sales. There also been more focus on commercial activity to compensate for reducing grant levels in England than in Scotland and Wales as English HAs have the necessary scale to cross-subsidise.

The comparative strengths and weaknesses of each jurisdiction's approach is summarised in the table below, based on GB stakeholder feedback.

Table 7:6: Strengths and Weaknesses of GB Models

	Strengths	Weaknesses
England	• Reduction in grant level provides greater VFM to public purse	• Reduction in government subsidy had just shifted the funding from the DCLG capital budget to that of the DWP revenue budget; • Many HAs are reaching borrowing capacity through increased private finance borrowing to fund subsidy shortfall; • Concerns around social housing tenants being 'priced out' of high market rent areas under the Affordable Rent model; and • There are questions over the sustainability of a social housing programme with substantially reduced grant rates in the long term.
Wales	• ACGs take into account varying costs of new builds based on size and regionalised location; • Supplements added for supported housing specifications; • Schemes falling below 96% of ACG will not be subjected to detailed scrutiny; and • Flexibility to set higher standards of specification than the minimum necessary. Costs of up to 120% of ACG can be approved if high acquisition and/or works costs are justified due to local conditions and housing need.	• Concern that the ACG figures do not take into full consideration the higher land prices in rural areas; and • Concerns about the increased promotion of intermediate rent and this taking the place of traditional social rented housing, as is happening in England.
Scotland	• Recognition of the higher costs of some schemes such as rural schemes, higher land prices and in meeting higher green standards in new builds; • Streamlined appraisal process for schemes below the benchmark. This has reduced the administrate burden for	• No weaknesses were raised by stakeholders

	HAs and government; • Benchmarks are based on the cost of all RSL new build projects in the last financial year, and adjusted to express estimated cost levels of the coming financial year; • Costs are adjusted to a 3 person equivalent to remove the effect of the higher costs of smaller developments; • Degree of flexibility for applications for above the benchmark, based on justification of costs; and • Projects can be considered for additional grant due to unavoidable and unforeseeable cost overruns.	

Housing sector stakeholders in Northern Ireland were consulted on the relative strengths identified in each jurisdiction and asked to consider how applicable each model (or elements of the model) would be to the Northern Ireland context, and if they would improve the current system in place.

Stakeholders were of the opinion that the English model is not applicable to Northern Ireland. It was recognised that the structure of the HA sector in England is very different, with significantly more large HAs, and so any approach will not be directly comparable to the context in Northern Ireland.

In terms of the approach adopted in England, it was recognised that there had been a deliberate policy shift in England to cut levels of government subsidy and move away from the supply of new social housing. There has been a sharp decline in the number of new social housing units being developed under the Affordable Homes Programme, with the focus shifted to the affordable rent model.

Cross-subsidisation was intended to mitigate the impact of reduced grant rates in England, but stakeholders believe that the success of this has been overstated, and that minimal amounts are being re-invested in social housing. The current system may work for the very large HAs, who have the necessary scale to leverage larger amounts of private finance, and cross-subsidise with commercial venture, but this is not the case for smaller HAs in England who cannot raise the additional finance needed to develop in lieu of government subsidy. The result is that larger HAs are becoming commercial entities and more like private developers than social landlords.

In terms of the Welsh model, stakeholders highlighted that the rent charging structure in Wales (i.e. CPI plus 1%) is very different to Northern Ireland. However, stakeholders believed a number of elements within the Welsh model could be applied to Northern Ireland. There was consensus that the more streamlined appraisal approach, whereby schemes below 96% of the ACG are given a 'light touch' appraisal, would improve efficiency in the TCI model. The Welsh model also affords a degree of flexibility in allowing higher costs due to building in areas of housing need. Although the Welsh model permits costs of up 120% of ACG in these circumstances, which is the same as the TCI model, stakeholders would like to see more recognition of the higher costs often associated with building in areas of housing need within the TCI model.

Stakeholders recognised that the output of social housing fell in Scotland in 2011-12 as a direct result of the reduction in grant levels. This was

Stakeholders felt that the following elements of the Scottish model could be applied to Northern Ireland.

- There is a large degree of transparency in the Scottish model with data made publically available on how the figures are calculated;
- There is a more streamlined appraisal process for schemes falling below benchmarks;

- Benchmarks are calculated using the actual costs of RSL new build projects in the previous year. They are therefore a more accurate reflection of the costs incurred by developing HAs; and
- Cost data underpinning the calculation of the figures is also adjusted to estimate costs in coming financial year – thus they are a more accurate reflection of changing market conditions.

8 FITNESS OF CURRENT SYSTEM IN NORTHERN IRELAND AND RECOMMENDATIONS FOR FUTURE DELIVERY

8.1 Introduction

This section considers the extent to which the current system for determining the level of Government funding for new social housing in Northern Ireland is still fit for purpose. It then provides a number of key recommendations for the future funding of new social housing in Northern Ireland based on the findings of the research.

8.2 Effectiveness of Funding Model in Northern Ireland

There was a consensus from housing sector stakeholders that social housing is fundamentally 'subsidised-housing' and without government subsidy, development can't, and won't, happen.

The average HAG rate was increased from 45% to 52% in October 2014. This was welcomed by housing sector stakeholders. Prior to this increase, there were concerns within the sector about reducing grant rates and the impact this could have on:

- The levels of debt within HAs due to increased borrowing to funding shortfall in subsidy;
- HAs' ability to raise finance due to higher gearing ratios; and
- Smaller HAs' ability to develop due to difficulty in accessing finance.

On the effectiveness of the TCI model - Government stakeholders highlighted that TCIs are an 'average of an average'. As such, they are intended to provide a benchmark, based on land valuations and regionalised market values. They also highlighted that the TCIs are reviewed bi-annually and that NIFHA are consulted on any revisions made to the figures.

Looking at data provided by DSD, it is possible to calculate the proportion of schemes that are developed in and around the TCI level originally set. At the scheme approval stage, an SCI is calculated – this is the proportion of the total scheme costs (at approval) expressed as a percentage of the TCI. As discussed in Section 4, Schemes may be approved up to 130% of TCI only where a strong case is presented with supporting evidence.

Following completion, a revised SCI is calculated, which is the proportion of the total scheme costs (post completion) expressed as a percentage of the TCI. A revised SCI of 100% indicates that that the scheme was completed for the cost predicted by the TCI, while a revised SCI of more than 100% means it was cost more than the TCI set for the scheme.

The table below shows the proportion of schemes that were completed within different brackets of TCIs (NB: this data is only reflective of completed schemes, it does not include proposed schemes that HAs do not develop as they are not finically viable). This shows that:

- In 2010-11, 60% of schemes were completed below the TCI benchmark figure (i.e. below 100% of the revised SCI); in 2011-12, this was 44%; in 2012-13 this was 62% and in 2013-14 the proportion was 79%;
- Between 2% and 4% of schemes were completed at the TCI benchmark figure (i.e. at 100% of the revised SCI); and
- In 2010-11, 38% of cost more than the TCI benchmark figure (i.e. above 100% of the revised SCI); in 2011-12, this was 52%; in 2012-13 this was 37% and in 2013-14 the proportion was 18%.

Given that TCIs are intended to be a benchmark figure for the cost of a given development, the data suggests that, overall, they are an effective indicator of costs as the majority of schemes are delivered at, or below, the TCIs (with the exception of 2011-12 where 52% of schemes cost more than the TCIs).

Table 8:1: Proportion of Schemes completed within SCI brackets (2010-2014)

Revised SCI	2010-11	2011-12	2012-13	2013-14
50-59%	0.0%	1.3%	1.9%	0.0%
60-69%	2.3%	4.0%	3.8%	10.5%
70-79%	9.2%	6.7%	7.7%	13.2%
80-89%	14.9%	8.0%	25.0%	31.6%
90-99%	33.3%	24.0%	23.1%	23.7%
100%	2.3%	4.0%	1.9%	2.6%
101-109%	19.5%	13.3%	23.1%	15.8%
110-119%	8.0%	14.7%	5.8%	0.0%
120+	10.3%	24.0%	7.7%	2.6%

Source: Data supplied by DSD, 2015

At, or below, TCI

Above TCI

However, while stakeholders from the housing sector recognised that the TCI model is a useful framework, and that it is intended to provide a benchmark figure for the cost of development, a number of weaknesses in the model were reported.

The main concern raised by stakeholders was with the data upon which TCIs are calculated. There was a consensus that these are not reflective of the true costs of development due to:

- Inherent weaknesses in LPS figures which are based on a low volume of transactions and, again, can be skewed by extreme figures and are not reflective of the market;
- Land values are not reflective of what HAs are actually paying in a competitive marketplace. HAs are also developing in areas based on social housing need, often on land that requires additional and expensive work to prepare it for building;
- Time lags in the data used do not reflect the dynamic nature of the market and prices; and
- Inflexibility regarding scale and higher costs of developing smaller schemes.

The timing of the publication of TCIs was also highlighted as weakness in the current model. It was felt that the updated TCIs should be published at the beginning of the year to enable adequate time for development planning. Stakeholders also felt there is a lack of transparency with the current model, both in terms of how the TCIs are calculated and the basis on which decisions are made.

While generally in favour of departmental adjustments and the flexibility they afford, stakeholders had a number of suggested improvements. They would like to see more clarity in how decisions on departmental adjustments are reached as they feel this is often unclear. There were also issues raised with the time taken to approve departmental adjustments, which can impact on a scheme's viability when HAs are competing a competitive market for land. HAs reported that they have not continued with a number of schemes because of the risk of applying for a departmental adjustment and having it rejected – they would welcome initial assurance upfront that a departmental adjustment will be granted.

8.3 Recommendations for Future Delivery

Overall, stakeholders in the Northern Ireland housing sector were of the opinion that the TCI model is generally fit-for-purpose and necessary as a measure of value for money, but could benefit from a number of modifications.

This section presents a number of strategic and operational recommendations for the future delivery of the TCI model.

8.3.1Transparency within Model

Stakeholders reported a lack of transparency within the TCI model, largely in how TCIs are calculated and how decisions based on TCIs are made, for example in schemes that aren't approved. Stakeholders also reported that there are often discrepancies between HAs' and DSD's figures on Scheme Cost Indexes - more transparency around figures would enable this to be clarified. Stakeholders would also welcome more clarity around departmental adjustment figures and decisions.

Transparency within the model used in Scotland was also highlighted by stakeholders as an element that could be adopted in Northern Ireland.

Recommendation 1: NIFHA to consider establishing a Working Group, with membership drawn from developing HAs, for DSD/NIHE to consult with on issues relating to the TCI model and accompanying grant rates. This will help improve transparency in the sector around the TCIs, their calculation and application.

8.3.2Flexibility of TCI Model

Stakeholders reported that they would like to see more flexibility within a number of aspects of the TCI model:

- In response to land purchase process to reflect the dynamic nature of the market;
- On the percentage of TCI that is considered to be acceptable - stakeholders were unclear why 120% was chosen as an upper limit value; and
- The level of Departmental Adjustments awarded are based on an HA's losses and gains in the previous year. When building in an area of high housing need, there is no need to look at HA's profit/loss over the last few schemes. There are a limited number of sites.

Stakeholders also suggested that the 'light touch' appraisal processes present in both the Welsh and Scottish models, could be beneficial to introduce in Northern Ireland.

Recommendation 2: NIHE to consider introducing a more streamlined appraisal process for Scheme Approval applications. This could follow the approach used in Scotland whereby applications that fall below the benchmark are subjected to streamlined appraisal and approval, and in Wales where schemes that fall below 96% of ACG are not subject to detailed scrutiny at the tender approval stage. DPG have already began work on this and have proposed that schemes falling below 90% of TCIs be subject to streamlined appraisal.

Recommendation 3: DPG (NIHE) to review current procedure for Departmental Adjustment and agreeing grant payments over TCIs, taking into account consultation with the newly established working group as mentioned in Recommendation 1. This will enable greater flexibility, based on a robust justification, in agreeing higher development costs

8.3.3 Timelines of Updated TCIs Publication

DSD normally review TCIs biannually and aim to publish updates to TCIs and accompanying grant rates as close as possible to the beginning of the financial year. However, stakeholders reported that there have been delays in the publication of updated TCIs over the last number of years. This impedes HAs' planning processes and creates a backlog of Scheme Approval applications in the second half of the year.

Recommendation 4: DSD to consult with the NIFHA Working Group in the last quarter of the financial year on the updated TCIs and accompanying grant rates for the following year. Updated TCIs should be published by DSD at the beginning of each financial year.

8.3.4 Future Funding of New Social Housing

While stakeholders recognised that subsidised housing requires some degree of government subsidy, there was also a recognition that some reduction in grant levels may be necessary as part of forthcoming austerity measures. In such a case, alternative sources of finance will be required to continue development.

Recommendation 5: HAs should explore alternative funding mechanisms to mitigate the impact of any future reduction in grant levels on social housing development.

APPENDIX 1: REFERENCES

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