



Affordable Housing Investment Reform Project Team
Scottish Government
1-H South
Victoria Quay
Edinburgh
EH6 6QQ

16th March 2008

FTAO: Aidan Grisewood - Deputy Director Social Housing

Dear Sirs,

Investing in Affordable Housing : a consultation

Thank you for sending us a copy of your "Investing in Affordable Housing - a Consultation" publication and inviting Homes for Scotland to respond on behalf of the home building industry here in Scotland.

Homes for Scotland represents the country's private home building industry - an industry which, prior to the onset of the credit crunch, was the largest source of private investment in the Scottish economy, contributing around £6bn and directly impacting the employment of 100,000 people in 2006.

Our membership of over 200 home building and associate member companies provides 95% of all new homes built for sale in Scotland

Having carefully considered the consultation documents and reviewed these with our "Housing Policy Task Group" the comments noted below are provided by Homes for Scotland on behalf of our members active in the delivery of Affordable Housing in Scotland.

General observations

The document is primarily concerned with practical, funding and structural arrangements directly between Scottish Government and Registered Social Landlords; and to that extent may appear to be largely irrelevant to the private sector. However, on closer consideration several important and wide ranging issues are either completely omitted from the consultation scope or not fully considered within its text.

It is particularly disappointing that the role of the private sector and its potential capacity to directly fulfil the role of Lead Developer is discounted within the consultation as either having no merit or being too costly to implement, without any evidence to demonstrate the validity of such an argument.

This is contrary to the detailed content, spirit and intent of "Firm Foundations" and in preventing even a discussion of such concepts the consultation dialogue progresses from a singular point of view without taking on board wider opportunities for stakeholder engagement.

Timing

The current economic, housing and financial market conditions in Scotland are the worst experienced in many decades and some would argue in living memory.

Within that context it is imperative that as much stability and certainty are injected back into the business community as quickly as possible. This principle applies especially to public sector investment programmes as they are often the mainstay of continued business led activity during any recession period.

In which light, any significant structural change to the Housing Investment programme which has the capacity to delay, confuse stakeholders and delivery agents alike, or raise new unproven risks within the financial institutions funding the sector is deeply unhelpful at this point in the recessionary cycle.

The consultation document provides no indication of the key transitional arrangements required to maintain housing output and prevent dilution of the current investment programme throughout the implementation of the major structural changes proposed. This of considerable concern when immediate delivery and provision of new homes in response to fundamental housing need is of such priority.

Structure

Reforming the structure of the RSL market and operating practises is clearly the key aim of this proposal to achieve improved efficiencies in the effectiveness of the investment programme. These benefits are linked in intent to the broadly understood effects of "economies of scale". However, no specific evidence or quantifiable effects from delivering the concepts set out within the consultation document is provided to back up such claims or allow informed debate or review of the worthiness of the range of options. Therefore it is impossible to comment objectively on whether the Scottish Government aims can be achieved by these means in this instance.

No indication is given of the range of incentives or benefits, financial or otherwise that will accrue to the Lead Developer to compensate them for taking on the additional responsibilities, co-ordination and management input involved in such a role. This begs the question, why would any organisation want to commence such a process?

If there are financial or process benefits so arising, albeit not stated within the consultation itself, how are these being paid for? If the response is either to provide more funds to such bodies or for them to squeeze additional margin out of partners to fund their own costs, then in both cases this would work directly against the main aims of the consultation proposals. It would reduce the housing output achieved for a certain input of funds.

The structures, operational management and contractual relationships involved in forming Lead Development consortia will place new complex demands on the Scottish Housing Regulator, yet such impacts are not considered within the consultation document nor in any other Scottish Government proposals for SHR to which we have had sight.

Unintended consequences

The drive to fewer but larger Lead Developers with whom our members may be able to contract for the supply and delivery of homes within the Affordable Housing investment programme will clearly present new opportunities for development businesses and larger construction contracts or frameworks to be secured across the construction sector.

However, and most obviously, the inverse is also true in that those partners or key supply chain members within the unsuccessful or unlucky RSL's will fall by the wayside and ultimately prove fruitless. This will have a substantially negative impact upon those individuals thereby further reducing local skills. Key abilities may be lost within a community as a result.

In the absence of a clearly set out and wide ranging communications programme to explain the major impacts of this structural change within the funding and set up of the sector then many small and medium size businesses will be caught unaware with dire consequences for the viability of their business model.

Wider dependencies

It is proposed that Lead Developers will bid and respond to regional Prospectus documents. The pre-qualification process including early indications of potential development programme and capacity are noted as commencing as early as June 2009.

No indication is given of who will be responsible for producing such documents, over what timeframe, or in what context. They are however, intrinsically linked to the conclusion of new Strategic Housing Investment Plans (SHIPS) within each of Scotland's thirty two local authorities before some form of regional summary is produced to present the Affordable Housing needs for the agreed Lead Developer region.

Several significant timing and geographic considerations arise from this suggested process.

It is our understanding that very few if any SHIPS will be concluded by Local Authorities within the required timeframe to meet such an aspiration. Therefore who is to be charged with accelerating such programmes and how will they be resourced to achieve this aim?

Homes for Scotland has long been of the opinion that regional housing delivery targets, covering the whole of the market and tenure mix, would be beneficial in delivering Scottish Government housing supply targets for the nation. Yet this has consistently been resisted by both Local Authorities and certain parts of Scottish Government. Therefore whilst the concept of Regional Prospectus is attractive, in line with the aims of SPP3, these documents should be used to describe the entire market demand for homes across the region concern rather than just the limited Affordable Housing needs element of that particular area.

Whatever the Prospectus regions that are eventually proposed, these will have to take account of Local Authority boundaries, newly approved Local and wider Strategic Development Plan boundaries, together with the operating office boundaries of Scottish Government and the Lead Developers proposed for certain areas. These competing "boundaries" do not currently align and this may lead to significant conflict or confusion when determining investment priorities within a single prospectus.

In addition any Lead developers, (RSL or otherwise) will not have control over the delivery of land, allocations of quota sites, securing of planning and other consents together with wider infrastructure investment. Therefore requiring that they commit to a proscribed development programme upon which funding streams, resource activity, key performance indicators and future pre-qualification negotiations will depend (up to five years in advance of actual delivery) is likely to be unworkable in this context.

Competition Issues

The drive to condense funding streams into ever reduced numbers of large scale bodies over a short time frame, where unsuccessful RSL's become unable to continue their prior committed development programmes, raises some very concerning issues around potentially "anti-competitive" behaviour on the part of Scottish Government.

Existing contractual relationships and partnership frameworks which extend beyond the proposed implementation timeline will undoubtedly be affected by this trend. This could result in renegotiation, significant changes of terms or even the severance of such frameworks. When the industry is already reeling from downturns in investment and activity within the private market such an outcome in publicly funded investment would be most unhelpful.

The suggested timeframe for implementation coming so closely as it does to the conclusion of the consultation also suggests that Government has already made up its mind about the outcomes of the consultation and intends to progress regardless of the results. Again this sends a deeply unhelpful message to industry about Scottish Governments willingness to engage and listen to legitimate concerns.

In which light, you will appreciate that, whilst the intent to streamline and improve the efficiency of the current Affordable Housing Investment arrangements is indeed laudable, the proposals set out in the consultation do not provide sufficient clarity of evidence, clearly structured transitional arrangements or an appropriately flexed delivery timescale to ensure these aims will be achieved within the current economic, market and housing supply context.

Yours,

A handwritten signature in black ink, appearing to read 'Jonathan Fair', with a long horizontal stroke extending to the right.

Jonathan Fair
Chief Executive