

To: HOUSING AND SOCIAL WORK SERVICES COMMITTEE		Subject: INVESTING IN AFFORDABLE HOUSING: A CONSULTATION	
From: HEAD OF HOUSING SERVICES			
Date: 25 FEBRUARY 2009	Ref: MP/PH		

1. Purpose of Report / Introduction

The purpose of this report is to seek committee approval for the proposed response to the Scottish Government's consultation paper entitled, 'Investing in Affordable Housing'.

2. Background

- 2.1. The consultation paper, which is available on request, outlines the Scottish Government's proposals for reforming the mechanisms for the delivery of the Affordable Housing Investment Programme (AHIP) in Scotland in order to try and achieve greater efficiency in the procurement process. In particular it proposes the introduction of a network of Lead Developers, who would be Registered Social Landlords (RSLs), and would provide a specialist development and procurement function on behalf of other RSLs. Responses to the paper are to be submitted by 17 March 2009.
- 2.2. The proposals follow on from the discussion paper published by the Scottish Government entitled 'Firm Foundations: The Future of Housing in Scotland', which identified the need to increase the supply of affordable housing and get better value for money, through increasing efficiency in the procurement process. There are currently 170 RSLs who receive Housing Association Grant (HAG) to develop new housing with the average size of development comprising of 14 units.
- 2.3. Although the council is currently not eligible to receive HAG, and is therefore not directly affected by the lead Developer proposals, it does have an important role in setting the strategic context and identifying the investment priorities for housing investment in its area. This is done through the Local Housing Strategy which identifies the overall housing needs of the area, and the Strategic Housing Investment Plan (SHIP) which identifies where public funding for new affordable housing (known as the Affordable Housing Investment Programme, or AHIP) should be targeted. The AHIP programme is administered by the Scottish Government through RSLs, and in the current year the allocation for North Lanarkshire is £14.6m.

3. Proposals / Considerations

- 3.1. The key proposals contained in the paper are summarised below:

3.2. *Regional Prospectuses*

- 3.2.1. It is proposed to develop Regional Prospectuses for a number of large regions, each comprising three or four local authority areas. Glasgow, Edinburgh and the three island authorities would be considered as individual areas and not part of the regional structure. The regions proposed in the paper are the current regional boundaries for the local Scottish Government offices that administer development funding. North Lanarkshire would be part of a region that includes South Lanarkshire, North, South and East Ayrshire

and Dumfries and Galloway. It is proposed that there will be further consultation with COSLA regarding the regions to be adopted.

3.2.2. The Regional Prospectuses should reflect the individual SHIPs of each local authority area. They will set out the opportunities and priorities for development in specific locations, as well as the indicative budget available. RSLs would then be invited to bid for subsidy to develop the identified projects.

3.3. **Lead Developers and Consortia**

3.3.1. It is proposed to reduce the number of RSLs who directly develop new housing by creating a network of lead developers who would be responsible for procuring the bulk of the affordable housing investment programme. RSLs who still wish to increase their housing stock will be encouraged to form consortia with identified lead developers who would manage the programme on behalf of the others in their consortium. The Scottish Government believe that this approach will result in increased expertise and efficiencies in the procurement process.

3.3.2. It is not proposed that local authorities would be part of the consortia arrangements but it is acknowledged that this could happen in the future.

3.4. **Competition for subsidy and appointment of lead developers**

3.4.1. RSLs who wish to continue to be eligible to receive grant subsidy (HAG) can apply through a pre qualification process and will be required to meet certain basic criteria. Only RSLs who are pre qualified can become Lead Developers.

3.4.2. Prospective lead developers, on behalf of their consortia, will then bid for subsidy for the projects and priorities set out in the Regional Prospectuses, focusing particularly on the projects within the next twelve to twenty four months. It is less clear how the bids will be assessed (given that at this stage projects will not have been tendered and therefore any costs will be indicative only). However the consultation paper states that there will be further consultation with COSLA to develop the assessment framework and clarify roles and responsibilities in the assessment process.

3.4.3. It is proposed to appoint lead developers for periods of up to five years and that the majority of the available investment within a region will be channelled through these lead developers. It is anticipated there will be more than one lead developer per region.

3.5. The aim of increasing efficiency in the procurement of new, affordable housing is to be supported and there are clearly advantages of concentrating the development function in the hands of a smaller, more expert, group of RSLs. However the council will wish to seek assurances that its strategic role in determining investment priorities for its areas is not in any way diluted by the proposal to develop Regional Prospectuses and that the overall level of investment in its area will be transparent and continues to be allocated and reported at a local authority, and not regional level. The regional boundaries also require further consideration as they do not mirror current Structure Plan areas.

3.6. The council's proposed response to the consultation paper is set out in Appendix 1.

4. Financial / Personnel / Legal / Policy Implication

- 4.1. There are no financial, personnel or legal implications associated with this report at this time.
- 4.2. The Head of Legal Services; Head of Property Services and Head of Planning were consulted regarding the council's response to the consultation paper.

5. Recommendation

It is recommended that the Committee approve the proposed response to the consultation paper as set out in Appendix 1.


Monica Patterson
Head of Housing Services
17 February 2009

For further information on this report please contact Pamela Humphries on telephone 01698 274174

APPENDIX 1

Investing in Affordable Housing: a Consultation - Questionnaire

Please return by 17 March 2009 to: AHIRPT@scotland.gsi.gov.uk, or:

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

Questions:

Question 1:

To what extent does our assessment of the current economic situation reflect your assessment?

The views of the financial sector on the proposals will be important to ensure that private finance will be available within the proposed new framework.

Question 2:

Does the economic situation strengthen or weaken the case for investment reform at this time, and why?

As above, it is important that the financial sector and construction industry are consulted regarding the proposals to ensure that there is continuity in programme planning and delivery.

Question 3:

Do you agree that local authority Strategic Housing Investment Plans and related strategies should form the basis for identifying investment priorities for periods of up to five years?

Yes. However further discussion is required regarding the priorities that are included within the Regional Prospectuses. It is not clear what the process for this will be, given the potential number of different local authority areas within each Region.

APPENDIX 1

Investing in Affordable Housing: a Consultation - Questionnaire

Question 4:

Do you agree with our proposed principles on which geographic regions for investment will be based?

The principles are appropriate but some of the regions proposed may be larger than is necessary to achieve the desired economies of scale. The regions as proposed do not seem to be aligned very closely with housing market areas, for example they do not reflect Structure Plan areas. They seem merely to reflect existing Scottish Government Regional Office boundaries, which are not consistent with local authority boundaries. This in turn could lead to confusion and further unnecessary bureaucracy.

Question 5:

- a) Do you agree with our proposed treatment for Orkney, Shetland and the Western Isles Councils?
- b) Do you agree with our proposed approach for Glasgow City and City of Edinburgh Councils?

The document gives no clear reason for excluding Edinburgh and Glasgow from the reform proposals and consideration should be given to achieving more uniformity across Scotland as part of this process.

Question 6:

Do you agree that Councils, as the strategic planning and housing authorities, and in collaboration with RSLs, should advise on the regions to be adopted as the basis for Prospectuses?

Yes

Question 7:

- a) Do you agree the scope of the content proposed for Prospectuses set out in Table 2?
- b) How can we ensure that the housing need of people with specialist requirements or in more remote or rural areas are fully reflected in Prospectuses?

a) The level of detail that can be included within the Prospectuses on a site by site basis will vary and it is unrealistic to assume that this can be fully detailed within the Prospectus for a 5 year period.

It is of concern that the document states that the final allocation of resources to be spent in each area will depend on the submission and subsequent performance of the RSLs. The allocation of funding should be detailed on a local authority basis as each local authority will require to be satisfied that it is receiving its allocated share of investment to meet its identified priorities.

APPENDIX 1

Investing in Affordable Housing: a Consultation - Questionnaire

b) This is the function of the Local Housing Strategies and SHIPs

Question 8:

a) Do you agree that there is a need to provide guidance within Prospectuses on maximum rent levels and is the proposed framework acceptable?

Yes, maintaining affordable rents is an important principle.

Question 9:

a) Are there other issues which would similarly benefit from guidance?
b) What are these and what is the case for including them?

It is assumed from Table 2 that all houses will require to be built to Housing for Varying Needs Standards but this maybe needs to be more explicit.

Question 10:

a) Is the Lead Developer role proposed here sufficient to deliver a more streamlined and effective approach to investment in and procurement of new affordable housing?
b) Does it adequately balance and recognise the needs and roles of non-developing RSL partners?

- a) This will very much depend on the skills and capacity of the Lead Developer, and also the sites that they are developing. Some sites will be more complex and/or expensive to develop than others.**
- b) There is very little detail about the relationship between the Lead Developers and the non-developing RSLs who may wish to receive the new stock. It is not clear what the process is for determining which RSL will ultimately own the stock, and how much influence they will have in terms of design/ specification. Presumably the efficiency savings of bulk procurement will not be significant if individual RSLs are able to retain their own specifications? There will need to be very effective communication between the Lead RSL and the local RSL, particularly if the latter is responsible for community consultation.**

APPENDIX 1
Investing in Affordable Housing: a Consultation - Questionnaire

Question 11:

What are your views on the routes we propose for establishing Lead Developers?

Further detail required regarding the assessment criteria for appointment of lead developers within a region. However the acknowledged need for flexibility on an area by area basis is welcomed. It is important that there is not a hiatus during the transition period that could result in delays to planned projects due to uncertainty about future procurement arrangements.

Question 12:

a) Do you agree with the proposed principles of consortia and responsibilities for consortium heads?

It is not entirely clear what the principles are, but the recognition of the need for flexibility is welcomed.

In addition to the roles mentioned for the Consortium Head there should also be reference for the need to establish strong and effective communication and liaison arrangements with the local authorities where they intend to operate. The local authorities will want to ensure that the lead developer is responsive to local requirements, and that there is sufficient emphasis on effective programme delivery, and not just the procurement process.

Question 13:

- a) Do you agree with the proposals on formation of consortia, including the requirement of a formal agreement to govern relationships within consortia?
- b) What guidance would be helpful to support the sector in setting up consortia and Lead Developer arrangements?
- c) What guidance would be helpful to ensure tenant and community engagement in decision-making?

a) A formal agreement will be essential although unless there is a high degree of mutual respect and understanding it is hard to see how a consortium could be successful and could lead to confusion over roles and responsibilities.

APPENDIX 1

Investing in Affordable Housing: a Consultation - Questionnaire

- b) **The issue of development staff does not appear to be addressed anywhere. Is there to be a transfer of staff to the lead developer? Is it assumed that there should be efficiencies in the overall overhead associated with the development programme? It will need to be demonstrated that the lead Developer has capacity to deliver the programme, not just in procurement but critically in project delivery and responding to problems and issues as they arise.**
- c) **There is a danger that these proposals will diminish the opportunities for tenants and local communities to influence individual projects, particularly where national subsidy targets make it difficult to respond to local needs and circumstances. Therefore it would be helpful for the Government to articulate what scope they envisage for tenant and community involvement in decision making.**

Question 14:

- a) Do you consider that there may be circumstances in which consortium membership should include local authorities or other non-RSL bodies?
- b) In what circumstances would you see this as appropriate?

There is no reason why a local authority should not be part of a consortium arrangement where it can be demonstrated that the council will achieve better value for money than tendering individual projects itself.

Question 15:

Are there circumstances in which bodies other than RSLs might be eligible to become heads of consortia and Lead Developers?

There should be sufficient flexibility to reflect local circumstances and in principle there is no reason why other bodies, including local authorities, could not be lead developers in certain circumstances, e.g. large regeneration projects.

Question 16:

Do you agree that a pre-qualification process should be included in the new arrangements?

Yes, if it adds value to the process. However the criteria will need to be more explicit because they currently appear to be quite subjective. It is

APPENDIX 1

Investing in Affordable Housing: a Consultation - Questionnaire

assumed that all RSLs who currently receive subsidy are deemed to meet these criteria?

Question 17:

Are the pre-qualification criteria and information requirements set out at Annex C a reasonable basis on which to work with the Regulator, the SFHA and COSLA to refine the pre-qualification process?

Yes, although as stated in response to Q16, they will need to be more objective criteria set.

Question 18:

Do you agree with the proposed funding criteria for bids for specific projects?

It is not clear how RSLs can have certainty regarding subsidy requirements unless they have tendered each site or have a price agreed with a contractor. It seems unlikely that this will be in place if RSLs are 'bidding' for subsidy and therefore funding is not yet confirmed. If bids are based on assumptions about subsidy required then there is a danger than RSLs will under estimate this in order to get the funding commitment, and then seek additional subsidy later on.

The criteria should presumably also reflect the RSL's past performance in delivering projects on time and on budget.

The requirement for local authority endorsement should be more explicit to ensure that projects reflect priorities, and it is not just those requiring the least subsidy that get funded, as these may be in cheaper to develop areas and/or be of the wrong house type to meet local needs.

Question 19:

Do you agree with our proposed approach to development of an assessment framework?

Not sure what the approach is that is being suggested, but agree there should be consultation with COSLA.

Question 20:

How might we enhance the involvement of local authorities, RSLs and other stakeholders in the assessment of proposals?

APPENDIX 1

Investing in Affordable Housing: a Consultation - Questionnaire

As outlined above the requirement for local authorities to endorse individual projects should be more explicit to ensure that projects that receive funding reflect the priorities set out in the Local Housing Strategy and SHIP

Question 21:

Do you agree with our proposed approach to the appointment and management of Lead Developers?

There needs to be further clarification on how competing bids will be assessed, as without tendered rates for specific projects it is difficult to see how projects can be fully costed. If RSLs can only bid for projects where they already own the land or have an agreement to purchase in place then it is not clear where the element of competition is?

In terms of involvement of local authorities in selection of Lead Developers further clarification is required on how this will work if there are differing views amongst the 4 or 5 local authorities within a region.

Question 22:

- a) Do you agree with the overall approach to grant agreements for Lead Developers as set out here?
- b) What do you suggest we could alter to make grant payments more streamlined?

Further detail is required on this.

Question 23:

Do you have any comments on the proposed timetable?

The timetable is very ambitious and it is difficult to see how it can be achieved given that detailed guidance is not yet developed or regions agreed. The local authorities will expect to be closely involved in the development of the regional prospectuses, which may take some time given the number of potential councils within each region.

Question 24:

Which indicators and what aspects of the Investment Programme should be included in a monitoring and evaluation framework?

The performance indicators must balance both cost and performance in relation to quality and delivery.