



GWSF

Glasgow and West of Scotland Forum of Housing Associations

“Variants of the NHT Model for Housing Associations” GWSF response to Scottish Government Discussion Paper

Introduction

1. GWSF represents and campaigns on behalf of community-controlled housing associations and co-operatives in the west of Scotland. 55 such organisations are affiliate members of GWSF, more than one-third of all Scottish registered social landlords.
2. This paper sets out our views on the Scottish Government’s recent Discussion Paper, on applying variants of the NHT model for intermediate rented housing to housing associations.

Comments on Strategic Context

3. The Discussion Paper begins by stating that the Scottish Government’s aim is to provide 18,000 new affordable homes over the next three years. We would note, for the record, that the Government’s Manifesto commitment in April this year to support the delivery of 6,000 new social rented homes per annum.
4. GWSF is not opposed to Government support for intermediate rented housing. But we are concerned about the prominence it now has in the Government’s overall housing strategy, relative to investment in new social rented housing.
5. Housing investment policy is failing to address the urgent and proven need for housing that is genuinely affordable to those on low incomes and in the greatest need. In June 2011, Shelter Scotland estimated that social rented housing will account for only 25% of new Government housing approvals in 2011/12, compared with past levels of around 80%.
6. The Government’s wish to promote a large-scale expansion of intermediate rented housing appears to be driven primarily by spending considerations.

By contrast, evidence that would support this in planning or housing system terms is much less developed, certainly in the west of Scotland.

7. For example, the recent Glasgow and Clyde Valley Strategic Development Plan (June 2011) and supporting Housing Needs and Demand Assessment (HNDA) indicate that intermediate housing will play a much more limited role than social housing in meeting the region's future needs for affordable housing. Moreover, the HNDA only assesses intermediate housing for ownership. It does not offer an assessment of future demand for intermediate rented housing, due to limitations in available data.
8. In the communities where GWSF members work, we expect that intermediate renting will be a "niche" form of provision, and that demand and feasibility will be highly localised.
9. It would be fundamentally wrong for Government strategy to view intermediate rented housing as a substitute for adequate levels of investment in social rented housing:
 - Intermediate rents will typically be double those charged by social landlords
 - Rents will not be significantly lower than those found in the private rented sector
 - The assets created will have a finite life, since the NHT model is founded on sales after a period of 5-10 years
 - Tenants would have less security (short assured tenancies)
 - There would be no regulation of standards of management or performance (we note that intermediate rented housing provided with Government support will not fall within the scope of the recently issued Scottish Social Housing Charter)
 - Using intermediate housing to house low-income groups would substantially increase housing benefit costs and would create significant barriers to employment for those on low incomes.

The NHT variants on offer

10. All of the variants in the Discussion Paper assume that participating housing associations will see the development and ownership of intermediate rented housing as an integral part of their strategic purpose and role, and that they will be willing to use their social housing assets (tenants' homes) to support this.

11. While a small number of housing associations operating in particular types of area may be of this view, we do not think this will be widespread particularly if no form of financial support is provided to mitigate the risks involved.
12. The Government should also give consideration to other forms of involvement by housing associations. For example, models where development and ownership of intermediate rented housing is undertaken by the private sector, and managed by housing associations.
13. Housing associations who have investigated the feasibility of intermediate rented housing have told us that some element of grant funding is likely to be essential. We are aware that the Scottish Government is currently providing grant funding for intermediate rented housing in some parts of Scotland, but we are not clear whether it intends to continue doing so or whether the NHT variant proposals would replace grant funding in future.
14. As far as the NHT variants are concerned, the Discussion Paper is very generalised in discussing targeting criteria, both in terms of types of market area and tenants. This makes it difficult to understand the policy aims the proposals are intended to address, and the potential for housing association involvement.

Comments on NHT Variants 1 and 2

15. The Discussion Paper states (para 2.11) that the Government's preferred position is that housing associations should provide intermediate rent housing without recourse to any form of guarantee or subsidy by the Scottish Government.
16. This is based on the assumption that some associations may have sufficient resources and be willing or able to carry additional risk. The key long-term risks include the resale of the assets.
17. For most housing associations, this is entirely unrealistic. It is also in direct contrast to the NHT model for local authorities, where the provision of guarantees means that risks are shared among councils, private sector partners and the Scottish Government. The accompanying paper on the local authority model indicates that guarantees will continue to be provided to local authorities in future.
18. The complete transfer of risks associated with the "no guarantee" variants presents fundamental difficulties:

- Housing associations are not for profit bodies, and most are also charities. In effect, the Government is saying that these types of organisations should take on risks that the private sector cannot in the present economic climate.
- The risks involved with variants 1 and 2 are open-ended, because the NHT model is based on achieving future sale of the assets created. In effect, housing associations involved in intermediate rented housing on these terms would be gambling on the future performance of the housing market and long-term trends in house prices. In the present economic climate, the risks of doing so are unknown and unquantifiable.
- The risk transfer involved would also raise significant legal and regulatory issues, which the Discussion Paper does not address.

The Discussion Paper states that intermediate properties may need to be managed through non charitable subsidiaries. The issues involved are much wider than the question of management.

For example, the Government needs to be clear whether it is suggesting that a charitable RSL can finance and own assets that are to be used for a non charitable purpose. And, if not, how a non charitable subsidiary could finance intermediate housing without an asset base of its own.

The Discussion Paper does not address these issues, in particular how no guarantee/subsidy variants would affect housing associations with charitable status and the implications for financial management and regulatory consents for on-lending within a group structure.

The Housing (Scotland) Act 2010 places the Scottish Housing Regulator under a statutory obligation to safeguard tenants' interests in the performance of its functions, including the granting of consents. We do not see how the Regulator could reasonably give consent to an RSL on-lending to a subsidiary for activities which would potentially expose the RSL (and therefore its tenants) to the open-ended risks that variants 1 and 2 present.

- The feasibility of options 1 and 2 will depend on the amount of borrowing a housing association can raise, relative to loan security valuation. If lending is less than 100% of market value or if market value is less than cost, projects will only be viable with Government support, or the housing association would need to use other assets to raise additional borrowing.

19. The Discussion Paper suggests that variants 1 and 2 are advantageous in comparison with the local authority version of the NHT scheme because they do not involve the creation of Special Purpose Vehicles or complex legal documentation. This is somewhat simplistic. The only reason that SPVs are not required is that under variants 1 and 2, all of the risks are borne by the housing association and none are shared by the private sector.

NHT Variant 3

20. Variant 3 is likely to be more attractive because it involves the sharing the risks between the private sector, the housing association and the Scottish Government.
21. The requirement to establish a special purpose vehicle is the most obvious downside. No information about the costs associated with this approach model is provided in the accompanying paper on “lessons learned” from the local authority scheme to date. We assume these costs are considerable. Similarly, variant 3 will involve substantial ongoing costs to the Government itself in contract monitoring.
22. We suggest that the Government should publish:
- Information about the true costs of the NHT model, including legal and operational costs for SPVs
 - Information about the long-term management and supervision costs the model creates for the Government itself

This would allow the costs of the NHT model to be compared with those of a simpler approach involving grant funding instead of guarantees.

GWSF

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