Q1. Can the SG identify for us the legislation primary or secondary governing payment of HAG to HAs and the specific provision in that legislation which requires HAs to repay HAG to the SG if it sells a house under RTB?

1.1 The Affordable Housing Investment Programme (AHIP) is the programme used to fund Housing Association Grant (HAG) which is awarded under Section 2 of the 1988 Housing Act.

1.2 The power to reclaim HAG on a RTB sale is contained within Scottish Homes (Recovery of grants etc) General Determination 1989. This links into section 52 of the 1988 Housing Act. This document lists the relevant events that require grant to be repaid. One of these events (listed at paragraph 3.1(b)) is if the house is no longer being used for a purpose for which the grant was made, that is, to provide social rented accommodation. A RTB sale triggers such an event.

1.3 The income received by SG from RSL RTB sales is derived by contractual agreements, the nature of which depend on the type of RSL, as described below:

- **General RSLs.** These are the most numerous. The RSLs in this group have developed through new build and some rehab using HAG. When a house is sold a proportion of this HAG has to be repaid, therefore the RSL is not the beneficiary of the full receipt.

- **LSVT (Ex Scottish Homes)** The original transfer price included an assumed level of income for the RSL from RTB receipts, which reflected the level of income RSLs needed from RTB receipts to meet their business plan obligations (e.g. SHQS). This income level was stipulated in the contracts. In theory, receipts over and above those contained in the assumption were to be returned to SG (net of a calculation for loss of income) for a period of time defined in the contracts. However, there has been a long-running difference of opinion between SG and some of the RSLs regarding the clauses relating to RTB receipts and the SG’s powers to enforce them. We have recently written to all RSLs with Scottish Homes contracts saying the SG is minded to set aside the contracts on certain conditions. All RSLs with these contracts, provided they meet the conditions, will in future be allowed to retain all RTB receipts. The Bill will therefore have no financial impact on the SG in terms of these contracts.

- **LSVT (Local Authority)** There are six such RSLs which were set up to manage ex-local authority stock following stock transfers. However these relatively new RSLs do not retain the full receipts as they have to
remit back to SG an amount that is determined by a pre-agreed formula. This formula takes into account the future rental income and expenditure on the stock that would have occurred had the property been retained by the RSL and not sold under RTB. This formula was agreed because the transfer price of the stock was originally calculated assuming no RTB sales and thus some compensation mechanism was required to protect both the new landlord organisation and taxpayers.

Q2. If the SG is projecting sales of 3500-4000 HA homes per annum after the 10 year exemption period from RTB has expired why is there no estimate of the substantial receipts which would flow into the Government from these HAG repayments?

2.1 The above projections were published in 2006. Paragraph 2.1 of our previous responses to questions arising from the Committee’s evidence session of 24 March highlighted that in the intervening period the financial and economic context has changed significantly. The Scottish Government’s more recent forecast suggests that if the 10 year suspension came to an end in 2012, around 2,800 RSL properties would probably be sold under the RTB over the ten years from 2012 to 2022.

2.2 There was no estimate of income from RTB sales receipts because there is a great deal of uncertainty inherent in accurately forecasting gross and net RTB receipts due to RSLs. Paragraphs 3.1 to 3.4 of our previous responses to questions arising from the Committee’s evidence session of 24 March highlighted that this is largely due to the interaction between the variables involved, namely: the market value of properties sold; the level of tenants’ RTB discounts, the amount of private finance outstanding; and the original amount of HAG grant. These uncertainties mean that it is not possible to estimate a figure with sufficient precision for it to be useful.

Q3. The SG previously told us that repayments from stock transfer sales were recycled into the Affordable homes budget. Is this also true of HAG repayments at present and is it the policy intention that future HAG repayment receipts will be similarly recycled?

3.1 Repayment of HAG, like the LSVT receipts, is recycled back into AHIP. Scottish Government has no plans to change this arrangement. In 2009-10 approximately 20% of AHIP’s RTB sales income was derived from HAG repayments and approximately 80% was derived from repayments from stock transfer sales; however the amount and proportion does vary year on year.

Scottish Government

27 April 2010