

HOUSING BEYOND 2021: DISCUSSION PAPER

Purpose of this paper

1. On 4 September 2018, the First Minister announced the Programme for Government for the next 12 months and, as part of that, the Scottish Government has committed to beginning work on a vision for how our homes and communities should look and feel in 2040 and the options and choices to get there.
2. Over the next 12 months, we will be engaging extensively with local government, businesses, the third sector, home owners, tenants and others to do this. As part of that process, Scottish Government will be engaging with housing stakeholders over the autumn to identify some themes and outline options to explore further, as well as seeking views on what might be part of a vision for 2040.
3. This paper is designed to help inform these discussions on the future of housing. It is not a formal consultation paper but is intended to be useful advance reading before a discussion led by officials or others who will ensure the key points are fed back to Scottish Government. This paper includes information on:
 - The Scottish housing system now and current government interventions at **Annex A**.
 - Challenges for housing beyond 2021 at **Annex B**.
 - Some draft principles for future interventions at **Annex C**.
 - Housing supply beyond 2021 at **Annex D**.
4. Some themes and questions to help prepare for a discussion are at **Annex E**. This discussion paper and the feedback template can be downloaded from the [Scottish Government website](#)¹.

Timing

5. This first wave of stakeholder engagement will run until **30 November 2018**. Then outputs will then be written up into a report for Ministers to consider. This will help frame proposals for a second round of engagement in 2019.

Introduction: from Programme for Government

6. We want everyone in Scotland to have a home that is warm, affordable and accessible. And we want to support our most disadvantaged communities and

¹ <https://beta.gov.scot/publications/housing-beyond-2021>

create great places that are sustainable and promote wellbeing. Given the long lead-in times for housing delivery, we have started work on our approach to housing supply beyond 2021. We remain committed to meeting demand for homes across all tenures but Scotland faces a number of challenges, including caring for our ageing population and the negative impact of the UK Government's approach to both Brexit and welfare cuts.

7. We want to deliver more of the right homes in the right places to meet the housing needs and aspirations of the people of Scotland. We want this to be a lasting legacy that is not just about new homes. We need to make the best use of our existing buildings too. That's why we are proposing to develop a new approach encompassing the whole housing system.
8. Housing has a vital role to play in meeting our aims for Scotland including eradicating child poverty and homelessness, ending fuel poverty and tackling the effects of climate change.
9. We have already put in place an Energy Efficient Scotland route map to 2040 describing how to make all of our homes warmer, greener and more energy efficient. Now we are going to consult on a wider vision for housing in 2040 and the steps we all need to take to get there.
10. We want to provide confidence to householders and businesses to plan ahead. Over the period to 2040, we will change the way we spend public money to support housing services and delivery. We will ensure that the economic and business environment supports housing investment and an efficient housing market. We will make our housing system fairer, especially for young people and others who do not currently own a home. We will explore new sources of funding for, and innovative ways of, building homes and providing care and other services at home. We will set new standards around accessibility, energy efficiency, quality and safety. Our homes will be connected, physically, digitally, culturally and economically, to their surroundings and promote healthy lifestyles and physical activity.

Scope and purpose of discussions

11. The purpose of these discussions is to help Scottish Government to begin to develop a vision for 2040 for the whole housing system, not just housing supply, and the themes and outline options that might underpin the vision. These will be explored further in 2019, with a view to developing a route map to 2040 showing the key milestones to get there.
12. We want stakeholders to think broadly and imaginatively with regard to the elements of a vision for housing. However, it is important that the route map is deliverable and will result in meaningful and positive change for the people of

Scotland. Therefore, it would be helpful to base discussion around tangible and practical ideas that use the levers we have (or might be expected to have or influence) as potential options for making the vision a reality.

13. For the purpose of these discussions, the housing system includes: housing supply across all tenures and the functioning of all aspects of the housing market; housing services; government expenditure directed at housing and housing services; the quality, standards and safety of existing stock; planning and infrastructure delivery, insofar as it directly relates to housing; and the interface with other policy areas such as economy, health, social care and environment.
14. However, where policies or targets have already been set out for beyond 2021, such as the Energy Efficient Scotland route map or child poverty targets, the presumption will be to work towards the implementation of these policies and delivery of these targets. Where policies have been recently implemented, such as reform of the private rented sector, the presumption is that these will continue to be rolled out and delivered in the short to medium term. The Homelessness and Rough Sleeping Action Group has set out a vision for transforming our response to homelessness in the next five to ten years and made specific recommendations to get there; these need to be woven in too. This government has not set specific policies or targets for affordable housing delivery beyond 2021, and the current approach would be challenging to sustain, which is why additional information about the supply side of the housing system is provided at **Annex D**.
15. For each policy affecting housing, the aim is to make the right changes at the right time to help us converge on the 2040 vision.

Scottish Government

September 2018

THE SCOTTISH HOUSING SYSTEM NOW

1. Context

Scotland has a land area of 79,000 km² inhabited by a population of 5.4 million. There are 2.4 million homes, with an average of two and a quarter people per home. The Scottish Government (SG) plans to spend a total of £32.8 billion² in 2018/19 to pay for devolved matters such as health, local government, housing and transport. SG plans to spend £756 million, on the Affordable Housing Supply Programme alone, to increase housing supply this year. There are around 1.1 million people in social rented housing, equal to one fifth of the population. Since 2007, SG has delivered 76,500 affordable homes, with total investment of over £5 billion, and between 2009 to 2021 we will have invested over £1 billion on tackling fuel poverty and improving energy efficiency of Scotland's homes. Eighty percent of homes expected to be in use in 2050 have already been built.

The Scottish Government's housing and regeneration outcomes are as follows:

Housing Vision: All people in Scotland live in high-quality sustainable homes that they can afford and that meet their needs.

Regeneration Vision: A Scotland where our most disadvantaged communities are supported and where all places are sustainable and promote well-being.

A well-functioning housing system	High quality, sustainable homes	Homes that meet people's needs	Sustainable communities
Availability and choice	Efficient use of natural resources	Access to a home	Economically sustainable
Homes people can afford	Warm	Able to keep a home	Physically sustainable
Growth of supply	Safe	Independent living supported	Socially sustainable
	Promote well-being		

2. Recent history

Broadly speaking, Scottish housing delivery since 1900 divides into three periods: a volume era; an asset era; and then a period of renewed focus on affordability. The

² DEL only. (Total managed expenditure, which includes AME, is £40.6 billion.)

volume era lasted broadly from 1900 to 1980 and was characterised by a growth in social housing and a general improvement in living conditions, quality and space.

The asset era covers the last decades of c20th and the first years of c21st and was characterised by a paradigm shift of deregulation opening up the housing and financial markets. During this period, large volumes of public housing stock were sold off and there was an increasing focus on home ownership. House price growth was seen as “a good thing” and housing became an increasing focus for investors, with houses seen as valuable assets and a safe pension investment. House price growth was driven by demographic trends leading to increased demand (e.g. migration, single person households, longevity) not matched by a supply response. One impact of this has been the transfer of wealth from young to old, as home owners gain from increases in their asset value but younger people are increasingly priced out by house price growth consistently outstripping inflation and wage growth (“generation rent”).

This decade has seen a growing awareness of affordability issues and the downside of ever rising house prices in most parts of the country. Intergenerational inequity issues, and the wider Fairer Scotland agenda, have come to the fore. Over the period 2014-17, 180,000 (19%) children in Scotland were living in poverty³, but once housing costs are taken into account, this rises to 230,000 children (24%). Housing affordability matters, not least because of new statutory targets to reduce child poverty, which take housing costs into account. This Parliament has seen a 67% increase in the targets for delivery of affordable homes (c.f. the last Parliament) and a corresponding increase in financial commitment. However, this is only now delivering a net increase in the number of social homes in Scotland, not least because of the legacy of Right to Buy.

3. Government intervention

- **Expenditure** – SG supports affordable housing through a range of interventions: mainly through capital grant, but also loans, shared equity investment and guarantees. Over the five years of this Parliament, SG plans to deliver at least 50,000 affordable homes, including 35,000 social homes, as well as homes for mid-market rent and affordable home ownership. Other investments and guarantees are supporting the private rented and home ownership tenures, e.g. through Help to Buy. UK Government (UKG) and SG also fund measures to improve existing housing stock; over one million households have benefited from energy efficiency measures since 2008.
- **Benefits** – Almost 20% of households in Scotland receive some level of housing support. UKG funds around £1.7 billion of support for housing costs in Scotland. UKG welfare reforms have sought to reduce the overall bill. SG has continued to

³ Relative poverty before housing costs.

mitigate the impact of UKG welfare reforms, including the Bedroom Tax (affecting more than 70,000 households). Bedroom tax mitigation costs the SG around £50 million per annum. SG has responsibility for discretionary housing payments and some flexibilities around the housing element of Universal Credit and faces further cuts in UKG funding. SG also has more generic social security powers around providing top-up payments and new benefits.

- **Taxation and rebates** – SG uses the Land and Building Transaction Tax primarily to raise revenue and, more recently, to disincentivise purchase of buy-to-let and to support first time buyers. Council taxes are a relatively low rate of asset taxation, from the creation of the tax in 1993 to the recent past, with levels having been frozen for 9 years and now subject to a 3% cap on increases. Previous discounts for empty properties have been replaced with local discretion to charge higher rates of council tax to encourage owners to bring long-term empty properties back into use. Around 40% of properties are subject to the 25% single person discount (a legacy from council tax being the replacement for the Community Charge). Additionally, the council tax reduction scheme provides means-tested reductions to the council tax liabilities of around 500,000 households. The UKG has set a 5% VAT rate for certain energy efficiency measures and most new build construction is zero-rated.
- **Rents (Social)** - SG has not provided a universal definition of affordability and does not have a national rent policy, although rents for Scottish social housing have for many years been based on the principle of affordability to tenants in low-paid employment without recourse to benefits. SG does assess “first let rents” when considering funding for new social housing projects.
- **Rents (Private Rented Sector)** - The Private Housing (Tenancies) (Scotland) Act 2016 deals with rents in the Private Rented Sector in two ways. Rents can only be increased once in a 12 month period (with 3 months’ advance notice). Tenants will also be able to refer perceived unreasonable rent increases for adjudication to protect them from unfair rent rises. Additionally, local authorities have powers to apply to Ministers to designate areas as Rent Pressure Zones, in which rent increases would be capped. All this is helping with the aims of improving security, stability and predictability for tenants in the private rented sector.
- **Legislation and guidance** – SG has legislated to regulate social landlords and landlords and letting agents in the private rented sector. The Private Housing (Tenancies) (Scotland) Act 2016 brought about the most significant change in private renting in Scotland for almost 30 years. It introduced the new Private Residential Tenancy based on the principle that, when a landlord rents out their property to a tenant, it becomes the tenant’s home, over which they must have security. Other legislation, such as the Planning Bill and building standards and

climate change legislation, also aim to improve housing quality and delivery. SG legislated to end tenants' right to buy their social home. SG provides guidance on a range of matters from installing adaptations and producing housing strategies.

- **Standards** – the use of standards is helping to drive significant improvements in the quality of Scotland's Homes. In the private rented sector, the repairing standard sets out the condition and quality of a home that private tenants can expect and a means, through the First Tier Tribunal, to have these enforced. The Scottish Housing Regulator regulates the providers of social housing; the Scottish Social Housing Charter sets out the outcomes and standards for Scotland's 610,000 social housing tenants. The Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing are transforming the quality, safety and energy efficiency of social homes. Through Home Energy Efficiency Programmes for Scotland, the SG offers assistance to improve the energy efficiency of private housing and the Energy Efficient Scotland Route Map sets out plans for minimum standards in energy efficiency for the private rented sector and on a long-term standard for all housing. SG has also created the Place Standard, providing a framework for assessing places and improving the built environment.
- **Land markets and supply** – SG is committed to modernising the compulsory purchase order system and supporting the use of Compulsory Purchase Orders by local authorities for development, housing and infrastructure. SG is also developing proposals for compulsory sales orders to help tackle the problem of derelict land and property blighting our communities. SG has asked the Scottish Land Commission to investigate how the functioning of the land market can be improved and will consider their recommendations in due course. SG facilitates communities to buy abandoned or neglected property and land through community empowerment legislation and funding.
- **Infrastructure** – SG provides funding for infrastructure to unlock housing and has proposed an infrastructure levy in the Planning Bill. SG works with utilities, such as Scottish Water, to help them focus on housing delivery. SG funds general transport infrastructure through Transport Scotland.
- **Regional economic development** – SG continues to develop City Deals, Town Centre Partnerships and Regional Economic Partnerships to promote economic development.
- **Competition and consumer protection** – law is reserved. SG has promoted SME participation to diversify and strengthen the house building sector. SG supported *Our Power* to offer cheaper fuel supplies to low income households in social housing.

- **Intention, influencing and confidence** – SG gathers data through surveys (SHCS), publishes official statistics, calculates need and demand assessments, and supports academic research, not least through the new Collaborative Centre for Housing Evidence. The SG sponsors the Scottish Land Commission and it will make recommendations to SG around land reform and land for housing and development. SG produces strategies and action plans to address a range of issues. SG works with stakeholders co-producing solutions through the Joint Housing Policy and Delivery Group, working groups and other fora. SG sets up partnerships to work together with others, e.g. the Highland Housing Hub (bringing together affordable housing delivery partners) and the Scottish Empty Homes Partnership with Shelter (which has brought more than 3,200 long-term empty homes back into productive use since 2010). SG sets ambitious targets to improve the lives of the people of Scotland, e.g. around affordable housing, homelessness, child poverty and fuel poverty.

CHALLENGES FOR HOUSING BEYOND 2021

There are a number of **Scotland-wide challenges** which our approach beyond 2021 needs to address:

1. An **ageing population**. By 2030, it is projected that there will be over 600,000 people aged 75 or over. We will need more suitable housing and services to help individuals to continue to live independently at home. As a society, we will need to spend more on health and social care.
2. The **current level of spend would be challenging to sustain** but the delivery of more affordable homes is essential as a key part of meeting the policy challenges above. **A further 50,000 affordable homes target for the next Parliament would cost £4 billion**. And even this level of investment would not be sufficient to meet Scotland's housing needs.
3. With regard to **Brexit**, the UK Government wants to leave not just the EU but the Single Market, threatening jobs and prosperity in Scotland. Our assessment of the impact is in our publication, *Scotland's Place in Europe: People, Jobs and Investment*. Brexit has consequences for both housing supply (construction and services) and demand (population).
4. The **UK Government's welfare reforms**. The UK Government has been steadily chipping away at the support it provides and the Scottish Government works to mitigate the worst impacts, but this isn't a sustainable or efficient use of public money in the long term.
5. Scotland's existing and new housing stock must contribute to reducing greenhouse gas emissions so that **we mitigate the impact of climate change**. The actions we will take to reduce emissions from our homes are set out in our Climate Change Plan. Earlier in 2018, the Scottish Government introduced a new Climate Change Bill to strengthen our greenhouse gas emission reduction targets in line with the Paris climate change agreement. We must also ensure that our **homes are adapted to the effects of climate change**. In 2019, we will publish an updated Adaptation Programme.
6. **A quarter of our households in 2016 were classified as living in fuel poverty**. We are tackling this challenge head-on. We have introduced a Fuel Poverty (Targets, Definition and Strategy) (Scotland) Bill to Parliament and published a Draft Fuel Poverty Strategy that sets out our ambitions on how we will achieve the targets set out in the Bill.
7. **Tackling and preventing homelessness**. The Homelessness and Rough Sleeping Action Group has made 70 recommendations to end rough sleeping

and homelessness and transform temporary accommodation which have been accepted in principle by Scottish Ministers.

8. **More than one in four children live in poverty** in Scotland, and this is increasing. Scottish Ministers now have a statutory duty to meet child poverty reduction targets in 2023 and 2030 under the Child Poverty (Scotland) Act 2017. Increasing housing affordability is a key lever in reducing poverty for households with children – in particular for the priority families set out in *Every Child, Every Chance: The Tackling Child Poverty Delivery Plan*.
9. Although we are confident in our **fire safety and Scottish building standards**, we are not complacent and we will need to make improvements as necessary through the recommendations of the Ministerial Working Group on building and fire safety including the recent commitment to legislate for installation of sprinklers in new build social housing and a common standard for smoke and fire alarms.
10. We need to “**islands-proof**” our policies, strategies and services⁴, so our new approach will need to deliver for our island communities and overcome the particular barriers they face.

⁴ Requirement of the Islands (Scotland) Act 2018.

DRAFT PRINCIPLES FOR FUTURE INTERVENTIONS

The Scottish Government's overarching vision for Scotland is set out in the Purpose, Values and National Outcomes in [Scotland's National Performance Framework](#)⁵. This Framework was refreshed in 2018, based on the views of the public, practitioners and experts on what kind of Scotland they would like to live in. This unified vision and approach helps us to achieve goals that improve the wellbeing and quality of life of the people of Scotland. The communities outcome, "*We live in communities that are inclusive, empowered, resilient and safe*", sets out a vision for Scotland's communities and is measured in part by a "*satisfaction with housing*" performance indicator. Good housing and housing services are, of course, necessary conditions for many of the Scottish Government's national outcomes to be achieved.

The housing and regeneration vision and outcomes (**page 4**) are positive, aspirational and widely accepted and expand on what individuals and society need for satisfaction with housing. But even they do not get into a sufficient detail to provide a coherent framework for addressing all the policy developments and issues facing housing in Scotland. The **draft principles** on the following page are designed to bridge that gap.

These principles have emerged from work done by Scottish Government officials through workshops using the Rapid Reflection Framework⁶. The workshops explored the historical narratives around housing in Scotland, the current challenges and the possible responses to them. The Framework helps participants to state their views and assumptions explicitly and bring important differences to the surface for discussion.

These draft principles are offered for discussion.

The advantages of setting out some draft principles are that they could improve:

- the consistency and focus of Scottish Government housing policies and actions; and
- the connection between housing policy and other priorities, e.g. around inclusive growth, health and education.

Refining the principles through discussion may also help clarify people's priorities at a level above specific policies and interventions.

⁵ <http://nationalperformance.gov.scot/>

⁶ This Framework was developed by the Scottish Government as technique to facilitate exploration of policy options by building a rich picture of the past, present and possible futures.

<p style="text-align: center;">A WELL-FUNCTIONING HOUSING SYSTEM</p> <ol style="list-style-type: none"> 1. The housing market should supply high-quality homes for living in, not promote the use of houses as a store of wealth. 2. Government policy (e.g. taxes and subsidies) should promote house price stability, to help underpin Scotland's standard of living and productivity. 3. Everybody should be able to save for the future (as well as be secure in their home and make significant changes to it) whether they rent or own. 4. Housing provision should be informed by whole life economic costs and benefits in the round and help to address inequalities in wealth, health, and education. 	<p style="text-align: center;">HIGH QUALITY, SUSTAINABLE HOMES</p> <ol style="list-style-type: none"> 5. Space and quality standards should be set specifically to improve and protect quality of living across all tenures. 6. Government policy should promote greater competition (including greater SME participation) in the building sector and broader availability of usable land to reduce prices and improve building quality. 7. All tenures should apply the same high quality and safety standards and levels of consumer protection. 8. New homes for sale should be built to high standards, defects should be identified and remedied quickly and all owners should be required to maintain the condition of their home. 9. Decisions around the quality, location and utilisation of existing stock and new build should be ambitious in promoting Scotland's energy security, tackling climate change and preserving biodiversity.
<p style="text-align: center;">SUSTAINABLE COMMUNITIES</p> <ol style="list-style-type: none"> 10. New housing, and the required community resources, should only be put in place where they help to create safer, stronger, attractive, sustainable and integrated communities. 11. Local communities should be empowered to respond to housing need in their area, as part of a coherent regional economic approach (creating and maintaining jobs) and supported by provision of the right infrastructure. 12. Government should promote functioning communities which are physically, digitally, culturally and economically connected within a coherent geographic region. 	<p style="text-align: center;">HOMES THAT MEET PEOPLE'S NEEDS</p> <ol style="list-style-type: none"> 13. Government should ensure that there are affordable housing options for households at all income levels. 14. Housing and the housing market should be highly flexible to enable people to meet their changing needs, especially those of an ageing population (accessibility and adaptations).

HOUSING SUPPLY BEYOND 2021

Outline

The delivery of more affordable homes is essential to meeting a host of growing challenges, such as providing health, care and housing for an ageing population, and commitments such as ending homelessness and tackling child poverty. So the Scottish Government remains committed to continue to promote increased supply across all tenures but doing this through a broader range of government-led interventions in the housing market. We need to put in place plans for short, medium and long term interventions that complement the approach to our existing stock.

A whole systems approach to housing delivery needs to take account of all public sector housing-related costs and receipts, e.g. grant, loan, guarantee, taxation, benefits, receipts (e.g. from equity share sales), and possible new sources of funding, such as land value capture.

Elements of the approach:

1. We need to **make the best use of any government expenditure**, seeking new and innovative ways of supporting housing delivery.
2. We need to **use our existing housing stock more efficiently**, not least through:
 - a. understanding the features of a healthy housing system (stock utilisation and market function)
 - b. using measures that matter to households, e.g. around affordability and access to the right home in the right place
 - c. prioritising the most important uses for housing, normally as a primary residence
3. We need to **control build costs**, not least through:
 - a. value for money and efficiencies
 - b. increased competition and
 - c. considering new approaches.
4. We need to **control running costs**, by accounting for the whole life costs of new homes.

However, it is important to remember that **someone has to pay** for each new home – the only variables are:

- who pays (Scottish Government, local authority or housing association, private investor, owner or tenant);
- how the payments are spread between actors and over time; and
- how the risks are shared.

Scottish Government is likely to continue to need to make significant investments in housing.

Housing market

On the **demand side**, there are a range of factors influencing demand for housing, including:

- demographic changes (numbers and profile) – e.g. from an ageing population and migration
- household formation and aspiration (suppressed household formation)
- relative attractiveness of domestic property as investment (c.f. other parts of UK and world and other investment classes); and
- tourism and leisure (second homes, holiday and short term lets – for visitors and seasonal workers).

On the **supply side**, there are a range of costs involved in building a new home:

- land – purchase, reclamation
- infrastructure – transport, utilities (and schools, healthcare)
- materials – steel, bricks, timber and other goods
- build – labour
- administration, compliance and project management
- private sector margin (developer and subcontractors).

Where house prices are high, this is because supply is slow to respond to demand. Another feature of the market is that the consumer has a relatively weak voice in influencing house builders' output.

PREPARATION FOR DISCUSSION

In your discussion, you may want to explore one or more of the following themes and consider what success looks like in 2040:

- Accessible homes for disabled people
- Affordability and supply
- Ageing population
- Brexit
- Child poverty
- Energy efficiency and climate change
- Homelessness
- Place, quality and standards
- Regeneration and sustainable communities
- Welfare, wealth inequality and intergenerational inequity

Benefits of government intervention

Consider the housing and regeneration vision and outcomes (see **page 4**). Consider the benefits of Scottish Government intervention in the housing system in the broadest sense – see **pages 4 to 8**):

- What should we be trying to achieve?
- How could it be measured?
- Who would benefit?

Opportunities

- What (other) challenges or opportunities do you foresee?
- What (other) principles or ideas might inform the approach beyond 2021?
- What would you need to do to make them a reality?