

JOINT HOUSING POLICY AND DELIVERY GROUP

FUTURE OF HOUSING SUPPLY

Introduction

1. This paper is provided to help JHPDG members prepare for a discussion around the future of housing supply. At the June meeting there will be small group discussion on the actual or potential benefits of government intervention in the housing market, interpreted in its broadest sense. There will then be the opportunity for plenary discussion and feedback to the Minister for Housing and Local Government. The output from this session will help frame the Scottish Government's work on options for housing supply beyond 2021. Benefits (as in what is to be achieved and for whom) is a strategic place to start this discussion at JHPDG.
2. This paper includes information on:
 - The Scottish housing system now and current government interventions at **Annex A**.
 - Benefits of government intervention at **Annex B**.
 - The Scottish National Investment Bank & Building Scotland Fund at **Annex C**.
 - Housing supply beyond 2021 at **Annex D**.
 - Some emerging principles at **Annex E**.

Advance preparation

3. Members are asked to read this paper in advance of the meeting and come ready for discussion. The discussion will centre around the actual or potential benefits of government intervention now and in the future. Members are asked to bring any evidence that might offer useful insight.

Output

4. Output from the session will help to inform both:
 - the development of the approach to housing supply beyond 2021; and
 - the benefits mapping of the More Homes Scotland approach now.

More Homes Division, May 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 billion¹ in 2018/19 to pay for devolved matters such as health, local government, housing and transport. SG plans to spend £756 million on increasing housing supply this year, mainly through affordable housing. There are around 1.1 million people in social rented housing, equal to one fifth of the population. Since 2007, SG has delivered 72,500 affordable homes, with total investment of over £4 billion.

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 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.

¹ DEL only. (Total managed expenditure, which includes AME, is £40.6 billion.)

The asset era lasted covered 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. Intergenerational inequity issues, and the wider Fairer Scotland agenda, have come to the fore. 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. 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. The 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 mitigate the impact of UKG welfare reforms, including the Bedroom Tax (affecting more than 70,000 households). 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** - 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.
- **Legislation and guidance** – SG legislates specifically to regulate housing through the Housing Acts and Private Rented Tenancies Act, for example. 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 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; and the Scottish Housing Quality Standard and the Energy Efficiency Standard for Social Housing are transforming the quality, safety and energy efficiency of social homes. SG offers assistance to improve the energy efficiency of private housing and has consulted on minimum standards for the private rented sector. SG created the Place Standard, providing a framework for assessing places and improving the built environment.
- **Land markets and supply** – SG is developing proposals to modernise and improve powers for compulsory sales orders and reviewing the compulsory purchase order framework. SG will consider stakeholder suggestions to improve the functioning of the land market, in conjunction with the Scottish Land Commission. 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 is proposing 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. 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 2,800 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.

BENEFITS OF GOVERNMENT INTERVENTION

Introduction: what is a benefit?

1. Managing Successful Programmes defines a benefit as a:
“measurable improvement resulting from an outcome [from a project] which is perceived as an advantage by a stakeholder”
2. Benefits realisation is the process for the identification, definition, tracking, realisation and optimisation of benefits ensuring that potential benefits arising from a programme of change are actually realised.

Benefits currently identified for the More Homes Scotland approach:

You might want to note down any thoughts in advance of discussion:

- B1** Increase rate of affordable house building

- B2** More purpose built stock for private rent

- B3** More homes built by SME house builders

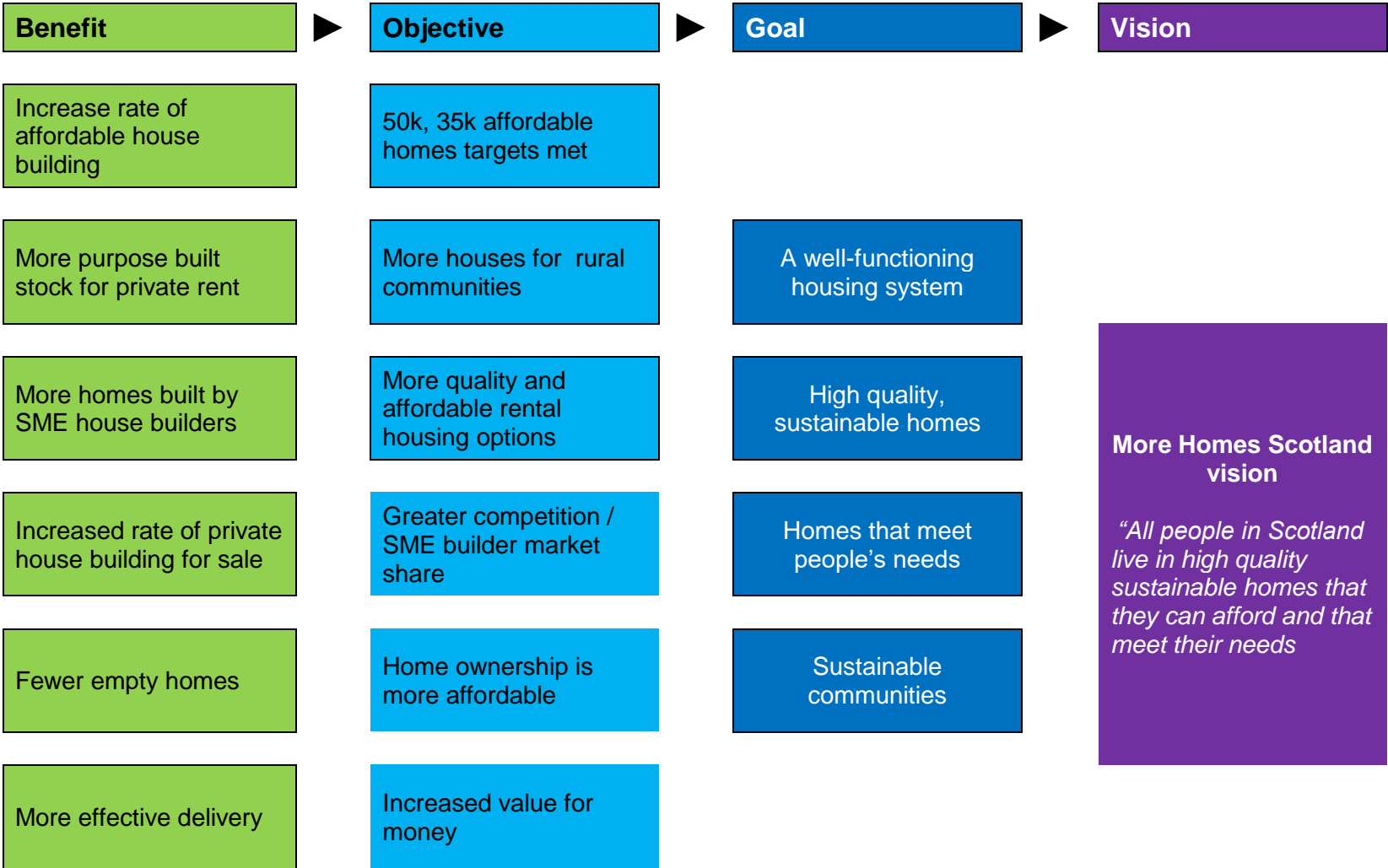
- B4** Increased rate of private house building for sale

- B5** Fewer empty homes

- B6** More effective delivery

Note: we need to think about what we measure – can we move towards household-centred measures, e.g. how long I have to wait before I get the home I need?

Linking benefits to outcomes



Note: For simplicity, the many links between the benefits, objectives and goals are not shown (they do not necessarily link horizontally across the page).

Discussion at JHPDG

The purpose of the discussion at JHPDG will be:

To identify and confirm the actual or potential benefits of government intervention in the housing market.

Each group will be asked to consider one Housing and Regeneration outcome – see **page 2**. Groups will be asked to consider the benefits of Scottish Government intervention in the housing market in the broadest sense – see **pages 2 to 5**). Or, framed the other way round, “*why can’t we leave housing supply to the market to deliver?*”

- Think about what we are trying to achieve.
- Think about how it might be measured.
- Think about which stakeholders it benefits.

Each group will be asked to feedback to plenary on their new or amended benefits or other points they wish to make.

ANNEX C**SCOTTISH NATIONAL INVESTMENT BANK (THE BANK) & BUILDING SCOTLAND FUND**

1. In Spring 2017, the Scottish Government's Council of Economic Advisers identified the importance of long term, patient capital in supporting economic growth. Building on this, Scottish Government announced plans to establish a Scottish National Investment Bank in the 2017/18 Programme for Government. The First Minister asked Benny Higgins, the former CEO of Tesco Bank, to lead the work on the case for Scotland having its own national investment bank.
2. Mr Higgins' insight, commitment and vision led to a unique and game-changing set of proposals. His Implementation Plan sets out a clear vision of what a national investment bank can achieve, and the practical steps that will be required in order to make that vision a reality.

The Scottish Government's formal response to the Implementation Plan

3. The First Minister responded to Mr Higgins' Implementation Plan on 28 February, noting:
 - the new bank should be a public body and operate independently within a strategic framework set by government;
 - it should be mission driven;
 - it should focus on investment that isn't currently being provided by the market in a way that seeks to shape and create markets; and
 - it should address Scotland's economic priorities in an inclusive and ethical way.
4. The Scottish Government recently announced it was accepting all 21 of the recommendations.

Why do we need an Investment Bank?

5. We have made great strides in the economy and in the housing sector. We have helped achieve higher investment than in the rest of the UK and close the productivity gap. But we still lag behind comparator countries and there is considerable variation within Scotland. Since the financial crisis, finance for small and medium sized firms has been in shorter supply. This has had an impact on our economic growth, even before we factor in Brexit.

6. Looking ahead, we need to be able to meet head on the challenges of the day, such as decarbonisation, demographic change and the need for more inclusive growth.
7. Many countries around the world with investment banks benefit from the provision of patient, strategic investments that focus on the major economic challenges. National promotional banks play an important role in actively creating and shaping new markets, helping countries rebalance their economies, improve productivity and tackle big societal challenges.
8. This Bank's role, in financing and directing investment, by leveraging public and private capital into a significant source of strategic and long-term finance. This can be channelled into key areas and can be transformative for our economy.

Capitalisation

9. The Scottish Government has accepted the Plan's recommendation on capitalisation and is committed to investing £2 billion over 10 years. This scale is deemed to be ambitious and achievable, making a material difference to the supply of capital to the Scottish economy. It requires an average of £200 million per year of capital from the SG over a decade.
10. This £2 billion, as an initial target, is consistent with other national investment banks. We have already taken the first steps. The 2018-19 Draft Budget included a commitment to invest £150 million over three years for a new Building Scotland Fund. That Fund, and its investments, should in due course come under the Bank's remit.
11. A further £340 million is to be made available to capitalise the Bank between 2019 and 2021, subject to future Budgets. That means that almost half a billion pounds has already been identified as the initial down payment on the £2 billion.
12. This is only the start of building up a significant asset base. A key objective of the Bank will be bringing in additional capital from private sector investors and increase the number of active private investors in the Scottish marketplace.

Principles for the Bank

13. The Bank will operate on a commercial basis; it will offer debt and equity which should be repaid over 10-15 years; it will be independent from Ministers with the board deciding where to invest and on what terms. This is essential in order for it to be flexible and responsive.

What will the Bank invest in?

14. The priorities for the Bank will be set by Ministers. The types of investment, though, will be determined by the Board and should include:
- strategic and patient capital over all stages of firms' and businesses investment lifecycle, so that they are able to accelerate innovation and make a stronger contribution to the Scottish economy;
 - substantial financing for major projects which support regeneration and communities; and
 - investment in new ideas, to help us to meet the key economic, environmental and social challenges.
15. We want Scotland to be a leader of technological change, and the Bank is essential to place Scotland at the forefront of economic change and innovation.
16. Initial capitalisation is from Financial Transactions, so the Bank will offer finance to private sector entities. However, dependent on future capitalisation plans, the Bank should be well placed to expand lending opportunities in the future.

Missions

17. A unique feature of the Bank is its mission-based approach to investment. This means Scottish Ministers identifying a set of medium term outcomes and a focus for the Bank's investment.
18. The Bank will decide how it responds to these missions, and will report its progress against those missions to Ministers. Core to this will be the alignment of the Bank with the wider economic strategy and priorities which have been identified and set by the Scottish Government.
19. This approach gives Scotland the potential to demonstrate global leadership on common challenges: such as: transitioning to a low carbon economy; responding to an ageing population and wider population health; and promoting inclusive growth through place-making and regeneration. The Scottish Government will further refine its expectations and the missions set for the Bank through consultation with stakeholders.

Governance

20. The Bank will have a Board, with the Chair of the Bank and Non-Executive Board Members appointed by Scottish Ministers. It is envisaged that the Executive Management Team appointments will be made by the Board. Work to

establish the most effective operating model for the Bank will be agreed during 2018.

Legislation

21. A Bill will be brought forward in 2019 to establish and capitalise the Bank.

Shadow Bank

22. We aim to have the bank operating in shadow form in 2019, pending the passage of the legislation.

Conclusion

23. A publicly owned national investment bank will become a cornerstone of the economy we want to create in Scotland - and has the potential to be truly transformative.

24. The Bank will act on a commercial basis, and have a different approach to risk and reward compared with other financial institutions. It should target a positive financial return at both an individual investment level and at an investment portfolio level – with the portfolio return target set over the long-term.

25. Investment will be on an ethical basis. To guide this principle, the Bank will develop a code of ethics that goes beyond regulatory requirements and adopt a best practice approach.

26. The people of Scotland will have an opportunity to inform proposals and the Scottish Government is committed to working with key stakeholders to further refine expectations of the bank, and the missions set for it. Through further consultation we will seek views on expectations and priorities for investment and how wider societal interests can be built into the way the Bank operates.

BUILDING SCOTLAND FUND

27. The £150m Building Scotland Fund (£70 million in 2018/19 and £80 million over the following two financial years) was announced in the Draft Budget 2018-19 on 14 December 2017 and agreed as part of the final Budget passed by Parliament on 21 February 2018.

28. The Building Scotland Fund is being established as a precursor to the Scottish National Investment Bank

29. The Fund will reflect the principles behind the Scottish National Bank, which are:

- a focus on projects and investments which support sustainable economic growth, reduce carbon and sustain and create places in line with the proposed vision for the Bank;
 - provide the capacity for patient capital in the form of debt and equity over a 10-15 year term; and
 - provide investments on commercial rates and/or comply with any state aid exemption (which can permit lower interest rates to be charged).
30. The cross-portfolio Fund will support the development of new public and private sector housing, develop modern industrial and commercial space; and support industry-led research and development.
31. We are working closely with the construction sector, the Construction Scotland Innovation Centre and other stakeholders in the housing sector to ensure this investment acts as a catalyst for skills development and innovation and supports construction jobs.
32. The Scottish Government, its enterprise agencies, the Scottish Futures Trust and Universities Scotland are working together to develop and deliver the Fund, which we expect to be operational later this year.

HOUSING SUPPLY BEYOND 2021

Outline approach

The delivery of more affordable homes is essential as a key part of 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 we remain 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.

Ms Constance launched a public dialogue at the CIH Housing Festival on 27 February and officials are considered how to engage the housing sector in its widest sense on the best ways to deliver affordable homes from 2021 onwards. We would like to take a whole systems approach to housing delivery, taking 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 new sources of funding such as land value capture. We want to look for synergy and efficiencies by working with other portfolios: e.g. tax, social security, health and social care and transport.

Elements of the approach:

1. We need to **use our existing housing stock more efficiently**.
2. We need to **reduce build costs**, not least through:
 - a. value for money and efficiencies,
 - b. increased competition and
 - c. considering new approaches.
3. We need to **reduce 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 (SG, LA, RSL, 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 if key policy commitments are to be delivered.

Challenges

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

1. An **ageing population**. By 2030, 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 **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.
3. **Tackling and preventing homelessness**. The Homelessness and Rough Sleeping Action Group is now examining longer term actions to end rough sleeping for good and make homelessness a thing of the past and we will need to deliver these.
4. **More than one in four children live in poverty** in Scotland, and this is increasing. We must meet the challenge of combating child poverty.
5. 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.
6. **Mitigating the impact of, and adapting to the effects of, climate change** as the Scottish Government prepares its second Scottish Climate Change Adaptation Programme.
7. Finally, 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***.

POSSIBLE PRINCIPLES FOR FUTURE INTERVENTIONS**ANNEX E**

<p>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. 	<p>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 in the building sector and broader availability of usable land to reduce prices and improve building quality. 7. Both the social and private rented sectors should apply the same high minimum quality 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>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 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>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.