

HOMES FOR SCOTLAND

WRITTEN SUBMISSION

Homes for Scotland is *the* voice of the home building industry.

With a membership of some 200 organisations together providing 95% of new homes built for sale in Scotland each year as well as a significant proportion of affordable housing, we are committed to improving the quality of living in Scotland by providing this and future generations with warm, sustainable homes in places people *want* to live.

We note that with a wide portfolio on capital and infrastructure the Committee has decided to focus on three national outcomes when scrutinizing the draft budget: to reduce Scotland's Carbon Footprint, to reduce traffic congestion and to increase the proportion of journeys to work by public or active travel.

Whilst funding allocated to support road and rail provision may positively assist builders in the planning and promotion of new housing development sites, for example the Borders railway or the Aberdeen Western Peripheral Route, it is not something that we intend to focus on within this evidence. We have not been alerted to any changes in spending plans that will result in delay of delivery and, as a basic principle, we would be supportive of any additional funding that could be brought forward by the Scottish Government to accelerate such infrastructure provision to allow the opening of new or constrained sites for development. Similarly, we would be supportive of any increased spend to support public transport provision, particularly where large residential sites are opened up in areas not currently served. Early investment in such travel services is important to encourage those moving into new developments to adopt use of public transport, before they become in the habit of relying on travel by car. Public investment is likely to be helpful until services become commercially viable.

Our evidence will focus on the role of housing in reducing Scotland's carbon footprint, specifically in relation to the need to increase new housing supply.

Scotland's Carbon Footprint and Housing

There is a clear link between Scotland's Carbon Footprint and housing. With housing estimated to be responsible for 25%ⁱ of emissions, it's not surprising that the Committee was keen to hear from representatives of the housing sector. The focus of HFS' work is on the delivery of much needed, many thousands of new, energy efficient homes for Scotland.

We understand from the Scottish Government's Report on Proposals & Policies that 'Homes & Communities' is expected to achieve around 12%ⁱⁱ of the carbon reduction target set for the entire economy. The contribution made by new build homes is intended to be achieved by increasing building standards. This contribution is small, estimated to be only a couple of per cent, including the changes to building standards implemented in 2010, and the next two step changes now planned for

2015 and 2019. This means that the impact of higher building standards can achieve only a tiny percentage of the target for the whole economy, estimated previously to be around 0.3%.

The ability of new build homes to make a dent in Scotland's Carbon Footprint, very much depends on the rate of home building that is taking place, the rate that new build is replacing older, inefficient homes. With around 2.36m existing homes and only 15,000 new homes being built last year, the industry is adding to the Scotland's housing stock at an annual rate of 0.63%. With 85% of homes today still expected to be in use when emissions targets are to be met in 2050ⁱⁱⁱ, clearly the focus needs to be on improving existing homes. However, HFS is keen to ensure that the budget for 2015/16 does what it can to support an increase in housing supply and consequently increase the contribution that new build can make.

The need to build more new homes

It is estimated that we need to be building at least 22,000 homes per annum to keep up with projected demand^{iv}.

Whilst the Scottish Government budget aims to facilitate the delivery of 6,000 affordable homes in 2015/16, the onus to deliver the biggest increase in supply will naturally fall upon the private sector. In order to do so, home builders and material suppliers need certainty on the future of the housing market.

It is noted that for the first time, since 2007/8 the national indicator to increase the number of new homes is showing an increase. The support provided by the Scottish Government to buyers of new build homes through the Help to Buy (Scotland) scheme has played an important part in this increase. However, HFS is seriously concerned that the increase may be short lived due to the gap in funding for Help to Buy (Scotland) and, whilst this is not the main focus of the budget scrutiny, we are keen to flag this to the Committee.

How the Budget 2015/16 can assist

Priorities for £125m of additional funding for housing supply

As well as continuing to support the delivery of affordable homes against the targets set, we are calling for the additional £125m of funding for housing supply in draft budget to be used to support an increase in housing delivery in 2015/16. Having considered carefully where support is required, we are asking for extra funding for the successful Help to Buy (Scotland) scheme, a new fund to provide support for development finance for SME home builders and a new fund to stimulate the growth of the Private Rented Sector (PRS).

The Committee is reminded about the wider economic benefits of building new homes, with every new homes built supporting 4 jobs, with every 9 homes built supporting 1 apprenticeship, and for every 4 homes built for sale delivering 1 new affordable home.

a) Help to Buy (Scotland)

Help to Buy (Scotland) has been a major success: helping the right households, increasing new home sales and production, benefitting a very large number of home builders including some SMEs, helping to boost industry capacity, not locking up development finance as with earlier schemes. Indeed Help to Buy (Scotland) has exceeded all forecasts and expectations regarding its impact.

However, the expiry of the 2014/15 budget by July 2014 has created an unwelcome pause in housing output with a significant consequential risk to jobs and economic output. We expect that the gap in funding for the scheme will translate into a drop in completions of new build homes in Q1 of 2016. HFS' own statistics suggest that since July we have seen a significant decrease in sales.

Due to high levels of demand from buyers, builders are already taking reservations under Help to Buy (Scotland) for completions in April, May, June and July 2016. Whilst there is £100m allocated to support buyers in the financial year 2015/16, we estimate that around £20m of this fund will already be committed through the issuing of Approvals in Principles (ATPs) by the scheme Agents.

HFS has supported the Scottish Government in taking action to better target the scheme, to allow the funding to go further, by restricting the price cap from £400k to £250k. This restriction will undoubtedly have an unwelcomed impact in more pressured market areas such as Aberdeen, Edinburgh and East Renfrewshire where demand is high.

Whilst the restriction will spread the existing budget further, it will in no way ensure that it lasts for the financial year 2015/16 as intended. To meet demand and support new build completions up to the end of March 2016, additional funding must be allocated.

Our understanding is that the Scottish Government received, under Barnett consequentials, a total of £542m of 'Capital Financial Transactions' specifically related to initiatives to support the homebuilding and construction industry for the period 2013/14 – 2015/16. Specifically, from the above total, £229m in consequentials has been received for 2015/16, from which only £100m has been allocated to Help to Buy. We therefore await clarity on how the additional £125m will be allocated.

b) SME homebuilders

To help SME home builders, who are still finding access to lending from High Street banks very difficult, the Scottish Government should develop a 'Help to Build' or 'Builders Finance Fund' equivalent from the consequential funding received.

The continued constraints on bank lending, particularly to SME businesses and specifically to those involved in speculative new housing development continue to be a major problem. This issue is not only affecting the businesses concerned but is also seriously impacting the industry's overall ability to increase housing output. These smaller businesses provide an essential component of Scotland's housing

output – often operating in more rural locations or smaller towns; they also deliver variety, choice and innovation in housing design. In addition, they make a positive contribution to local jobs, apprenticeships and community development.

Using its proven skills in financial innovation, a possibility exists for the Scottish Government to consider a guarantee scheme for home builder SME funding, along the lines of MI New Home. At present, one of the biggest loan funding obstacles for SMEs is the tougher LTV limits and costs imposed by the banks compared with pre-2007 terms. It may be possible for the Scottish Government to indemnify the banks and offer some sort of guarantee. Homes for Scotland has held some preliminary discussions with some lenders and this idea does seem to be of interest to them.

The issues are not unique to Scotland or SME home builders in Scotland with the Chancellor, in his March Budget, announcing the creation of a 'Builders Finance Fund'. There now exists a clear opportunity for the Scottish Government to announce the intention to create a similar scheme designed to assist SME home builders. The Scottish Government has already demonstrated financial innovation with the development of the NHT model and other novel uses of guarantees – this is an ideal opportunity to further enhance that reputation.

Under the Barnett formula our understanding is that the Scottish Government received £20.45m in 2015/16 as direct consequence of the launch of the '*Builders Finance Fund*' in England. We would call on the Scottish Government to use this funding for exactly the same purpose in Scotland and ensure that SME's north of the border are not disadvantaged.

c) Private Rented Sector (PRS)

The Scottish Government has recently committed to support HFS with the recruitment of a 'Champion' whose role will be to secure investment and the delivery of new housing developments in the PRS. This is a very positive step as Governments have been trying to attract institutional investment in the PRS for over 30 years, until recently without success.

However home builders have found that linking institutional investment to new housing supply has proved very difficult. To 'pump-prime' this investment opportunity will require some Scottish Government support in the form of guarantees to investors, providing some confidence in yields. We therefore would like to see the Scottish Government introduce a PRS Guarantee Fund aimed at attracting institutional investors to invest in new PRS housing projects in Scotland.

The emergence of new, energy efficient, professionally managed homes in the private rented sector will add a new choice for Scottish households. It will also introduce competition to the often poor quality rented stock, with landlords forced to improve their offering to attract tenants.

Continued support for Greener Innovation Scheme

The Scottish Government has within its affordable housing budget made available additional subsidy to housing providers when building to higher energy standards.

This provides helpful motivation to go above and beyond existing building standards and helps compensate for the higher build costs incurred as a result. Whilst we are not clear of the value of the fund proposed for 2015/16, we are keen for this support to continue to be made available to meet demand. It is also important for the unit value of additional subsidy to reflect the additional build costs, to ensure that it acts as a true incentive and assists development viability.

Use LBTT to stimulate demand for greener homes

Whilst the Greener Innovation scheme assists with additional build costs for the delivery of affordable homes that are supported by public subsidy, there is no such assistance or incentive within the homes for sale market.

We would be keen for the Scottish Government to relate the new Land & Buildings Transaction Tax (LBTT) regime with its policy priority for low carbon homes. It is our view that it is simply an opportunity missed if they do not. Within its Sustainable Housing Strategy the Scottish Government has stated that they want to see a market premium on warm, high quality, low carbon homes with lower running costs because these attributes are valued by lenders, consumers and surveyors. In achieving this, the Government acknowledges the need for the market to fully reflect the benefits of 'greener' housing.

We believe that the Scottish Government should use LBTT to influence the market for energy efficient homes by linking the amount payable to the Energy Performance Certificate (EPC). When a property is marketed for sale both sellers and buyers have access to an EPC. This mandatory certificate allows comparisons of homes for sale across the market, encouraging buyers to take account of the energy efficiency of the home in their choices. Whilst the amount saved by the customer will not off-set the additional costs incurred by the builder in delivering a higher efficiency home, it would introduce a much needed incentive to help create market demand for energy efficient homes.

Homes for Scotland 30 October 2014

ⁱ Scottish Government (2010); Conserve and Save; Energy Efficiency Action Plan for Scotland

ⁱⁱ Scottish Government's Report on Proposals & Policies up to 2022

ⁱⁱⁱ Scottish Government – Homes that don't cost the earth

^{iv} Housing In Scotland: Audit Scotland July 2013