Local Government and Communities Committee

Scrutiny of the Draft Budget 2017-18

Submission from the Council of Mortgage Lenders

Introduction

1. The CML is the representative body for the residential mortgage lending industry that includes banks, building societies and specialist lenders. Our 139 members currently hold around 97% of the assets of the UK mortgage market. In addition to home ownership, CML members also lend to support the social housing and private rental markets across the UK.

2. We welcome the opportunity to provide this submission to the call for evidence by the Local Government and Communities Committee as part of its pre-budget scrutiny ahead of the publication of the Scottish Government's draft budget 2017/18.

General comments

3. In the Committee’s inquiry, the area of most relevance and interest to the CML and lenders is that relating to the Housing Supply Budget. The CML and lenders are closely involved in a number of schemes and initiatives delivered through centrally managed funds.

4. Additionally, a number of our members are commercial funders/ investors to the RSL sector in Scotland. We are keen to engage on funding issues in this sector, including the development and use of innovative funding approaches. The availability of private funding at competitive rates will be key in ensuring the sector is able to play its part in delivering the government’s target of 50,000 new affordable homes over the life of the current Parliament.

Specific comments

5. Our specific comments focus on areas in Question 5 of the Committee’s call for evidence.

6. Impacts of funding mechanisms and timing: The annual grant funding from HM Treasury to the Scottish Government means that it can be difficult to give a longer term (>12 month) commitment to investment as there is likely to be uncertainty around subsequent years funding level and demand for specific schemes, such as HTB (Scotland). Housing requires longer term commitments, and uncertain or interrupted funding can have an unwelcome stop-start effect.

7. First-time buyers: We are encouraged by the government’s ongoing support for schemes and initiatives that support first-time buyers. In this regard, the Help to Buy (Scotland) Affordable New Build scheme is successfully supporting target transaction levels in the current financial year.
8. The recent refining of criteria for HTB (Scotland) to target the limited funding available is welcome, however, in England there are currently commitments to fully fund the scheme until April 2021. It would be helpful for builder certainty/confidence and investment in Scotland to have a similar longer term commitment albeit keeping it targeted at those who need rather than choose the scheme.

9. Looking back over the operation of the scheme in previous years, its stop-start nature has presented challenges for developers and purchasers, particularly in years where the scheme had to close early as a result of demand outstripping the available budget for a given financial year. Going forward, we are confident that the quality of scheme data, monitoring and analysis has improved substantially and that this is enabling smoother delivery over time. In the HTB (Scotland) Affordable New Build scheme, more accurate data and monitoring is enabling a well managed closure for the scheme in the current financial year. This is good to see.

10. We note, however, that there are likely to be challenges ahead for the remaining years of the scheme in 2017-18 and 2018-19 particularly in relation to the reducing price caps for these years (£200k and £175k respectively). As the economic and political backdrop to the operation of the housing market has changed since these price caps were set, government might wish to consider the suitability of these price caps and the extent to which they enable the scheme to provide targeted support for transactions across all regions of Scotland.

11. On OMSE and other equity schemes, it is encouraging that these continue to appear to operate in a consistent and stable way and provide valuable assistance to qualifying customers. OMSE provides a useful stimulus to the second hand property market giving consumer choice and keeping the wider market fluid. This support is welcomed.

12. On the extent to which centrally managed funds support the development of an appropriate mix of affordable housing, we suggest that Shared Ownership could be a tenure that receives more profile and investment in Scotland.

13. On the operation of the housing market as a whole, we suggest government should reflect on and take account of the impacts of LBTT which can cause blockages or distortion across the housing market due to stagnation at the top end.

14. RSL sector: in relative terms, Scottish Government supports the RSL sector well through grant and other forms of subsidy. Government rightly recognises the long-term value to society of up-front capital investment for social and affordable housing and other sub-market products for rent as well as for purchase. The CML supports a tenure-neutral approach such as this, which enables the delivery of sustainable housing markets and communities.

15. Innovative funding: Our members report that there continues to be a strong supply of private funding and investment (including longer-term) at competitive rates for the RSL sector. The availability of funding is not, in our view, a barrier to development in this sector at this time. Innovative funding approaches could continue to supplement funding from traditional sources, but given the ongoing
supply of historically low-cost debt in this sector, we suggest the development of alternative sources could be accorded a lower priority at this time.

16. **Economic & regulatory environment for RSLs:** We would like to see government focus on creating and sustaining a favourable environment for RSLs to grow their businesses. This would better equip the sector to deliver the required levels of new supply. In this respect, we would like to see government sufficiently and effectively address the issues and challenges for regulation of the RSL sector, arising from the recent ONS classification decision. We are encourage by the announcement of regulatory reform measures to be taken in the Housing (Amendment) (Scotland) Bill and look forward to ongoing engagement with government and key stakeholders on the detail.

17. **Housing for older people:** We agree that increased flexibilities in subsidies could help bring-forward more provision of housing for older people. Issues around delivering older people’s housing should be considered in the mix of related issues including how property taxation might be used to support older homeowners to downsize. We suggest flexible subsidies could be used to deliver housing for older people through other approaches and tenures, including shared ownership.

18. We also flag that the **Home Owners’ Support Fund** appears to offer value for money on the budget assigned to it. This is an effective and established scheme that assists mortgage customers in significant arrears.

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