

JRF response to Housing 2040 Inquiry of LGHP Committee

While the broad aspirations of Housing 2040 remain sound: delivery, lack of prioritisation and funding are a significant concern

Why are the aspirations of Housing 2040 still correct?

“Our aim is for everyone to have access to a home that is affordable and choices about where they live, no matter what tenure they live in.”

Source: Housing to 2040

There is both an emotional and practical reason for the centrality of housing to solving poverty. In emotional terms, a home should be safe and comfortable, a place to enjoy time with family and friends, a cornerstone to build your life around.

In practical terms, the cost of someone’s home is the first bill that needs paid – key to keeping a roof over your head. That’s why, for example, the Scottish Parliament’s Child Poverty Targets use after housing costs (AHC) measures – i.e. whether or not a household with children is in poverty is determined after their housing has been paid for.

In that context it is crucial that housing affordability retains its place at the core of housing policy in Scotland. In the latest figures 46% of people living in poverty lived in the social rented sector and around the same proportion (46%) of the people living in the social rented sector live in relative poverty. While around a third (34%) of people in poverty live in the private rented sector (PRS),

with an overall poverty rate of between 1 in 4 and 1 in 5 people within the sector.¹

A higher rate of poverty amongst those in the social rented sector is not necessarily surprising as social housing tends to be reserved for those on lower incomes. As a result, it is key to consider which households are only in poverty once their housing costs are taken into account i.e. that they have a high enough income to avoid poverty but their housing costs force them below the poverty line. That measure highlights the impact of housing tenure on policy levels. In Scotland 26% of social renters are only in poverty after their housing costs are factored in but for private renters the figure is 29%.

As JRF have pointed out in the past² a key reason that poverty rates in Scotland have tended to be lower than elsewhere in the UK³ is due to comparatively low housing costs⁴. This is explained at least in part by the higher proportion of people in poverty living in the social sector compared to the rest of the UK.

But these trends are delicate. The PRS has grown in Scotland, as it has across the UK, but less so. The result of which from the perspective of the rest of the UK is reflected on in our recent UK Poverty 2024 report:

“Had the size of the social rented sector been maintained, the depth of poverty experienced by those now in poverty in the private rented sector, who otherwise would have been social renters, would be ameliorated and we would likely see a lower overall rate of poverty.”

Source: UK Poverty 2024, JRF⁵

¹ It is worth noting that the latest figures have shown some change on previous trends. It is not clear yet, however, if this is as a result of the impacts that the pandemic had on the sample for the Poverty and Inequality Statistics or longer terms trends.

² See Poverty in Scotland 2019 - <https://www.jrf.org.uk/work/poverty-in-scotland-2019>

³ The “rest of the UK” in this context primarily means England and Wales as Northern Ireland has had poverty rates more similar to, and in recent years lower, than Scotland. Again, like in Scotland, Northern Ireland’s housing costs are lower than England and Wales but their tenure mix is different to Scotland. For more details see <https://www.jrf.org.uk/work/poverty-in-northern-ireland-2022>

⁴ To illustrate this point further, at the UK level a third of social renters (36% vs around 25% in Scotland) and a half of private renters (51% vs around 30% in Scotland) were only in poverty after their housing costs are factored in.

⁵ <https://www.jrf.org.uk/uk-poverty-2024-the-essential-guide-to-understanding-poverty-in-the-uk>

The PRS will be a good option for some households who require flexibility or are living in an area for a temporary period but too many people on low or fragile incomes are having to rely on it. But the social rented sector is more affordable and more secure and should be available to more households in Scotland.

Scotland is not immune to the shifts in housing affordability that have been seen in England and Wales and allowing tenures to shift, without another means of managing affordability, will lead to increases in poverty through higher housing costs.

The warning signs of a system under extreme pressure

The housing system foreseen by Housing to 2040 is one where homelessness and rough sleeping is eradicated. Sadly that is far from the experience of many today. The number of homelessness applications and households assessed as homeless now exceed pre-pandemic figures and are the highest in the time series since 2012-13 and 2011-12 respectively.⁶ On the 31 March last year there was the highest number of people in temporary accommodation ever – including almost 10,000 children⁷. This has led to the Scottish Housing Regulator reporting:

“...that there is systemic failure in the services provided to people who are homeless by some councils and that there is a heightened risk in other councils”.

Source: Scottish Housing Regulator⁸

All the while, the latest housing statistics show a concerning choking-off of supply of affordable homes in Scotland with approvals down by almost 15% (and more for social and affordable rent) and completions down by almost a quarter (and by nearly 30% for social rent)⁹. Of course, the housing system has

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<https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2023/08/homelessness-in-scotland-2022-23/documents/homelessness-in-scotland-2022-23/homelessness-in-scotland-2022-23/govscot%3Adocument/Homelessness%2Bin%2BScotland%2B2022-23.pdf>

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<https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2023/08/homelessness-in-scotland-2022-23/documents/homelessness-in-scotland-2022-23/homelessness-in-scotland-2022-23/govscot%3Adocument/Homelessness%2Bin%2BScotland%2B2022-23.pdf>

⁸ <https://www.housingregulator.gov.scot/landlord-performance/national-reports/thematic-work/update-to-our-february-2023-thematic-review-of-homelessness-services-in-scotland-december-2023/#section-1>

⁹ <https://www.gov.scot/publications/quarterly-housing-statistics-december-2023/>

suffered a significant shock to its cost base. With inflation and interest rate rises impacting on the costs of building and financing and knock-on impacts that has had on the supply of labour.

It is in this context that recent Scottish Government decisions to cut funding to the Affordable Housing Supply Programme are particularly baffling. It is undoubtedly the case that the Scottish Government's Capital DEL budget has been a harsh victim of UK Government public spending choices but for the housing budget to face such a deep cut in the face of the challenges that thousands of households face is deeply concerning.

Of course Housing to 2040 is a longer term ambition than the immediate crisis facing the housing system, and the people impacted by its struggles, but it is crucial that the Scottish Government quickly establishes a grip of the scale of this crisis and understands that these current cuts will have longer term impacts.

What next for Housing to 2040 given these pressures?

Part of the response to that crisis needs to be the Scottish Government taking this challenging time to refocus on the vision of Housing to 2040 and its ambitions for the Affordable Housing Supply Programme (AHSP) in particular. While the Scottish Government are re-assessing their approach to the AHSP it will not be enough to simply move deadlines further away, they will have to give certainty to the housing system as well as underlining their immediate priorities.

To help inform this work we are currently working with the UK Collaborative Centre for Housing Evidence (CaCHE) who are looking at both how the AHSP can be improved to best meet the goals of Housing to 2040, with a particular focus on reducing poverty and inequality, as well as how we could reform taxation of property. We are aware that you will also be hearing from Professor Kenneth Gibb who will cover the findings thus far in both his written and oral evidence.

One of the purposes of our work with CaCHE was to ensure that public investment in housing in Scotland was getting the greatest return possible in terms of its impact on poverty levels and broader inequality. The Scottish Government's previous commitments of large investments in the AHSP over time were welcome but even then there was some doubt about how this would (a) meet the overall building targets and (b) the impact that that would have on poverty levels. The current rapid retraction of funding levels makes these

challenges even more acute. We expect the findings of this work to be published in the coming months.

In the meantime, we believe it is crucial that the Scottish Government work with local government, RSLs and the broader homelessness sector to refocus and reboot the AHSP.

We also need to talk about council tax and housing wealth

Our work with CaCHE is also investigating how property is taxed in Scotland - in particular at council tax. The latest council tax freeze announced by the Scottish Government is part of a long line of struggles with the council tax. It appears that there is general consensus amongst decision makers that the council tax is unfair, generally regressive and long overdue for reform yet we continue to persist with the present system. While there are more immediate things that the Scottish Government could do to reset some of this inherent unfairness - such as a revaluation and/or further tweaks to the bands - they are sticking plasters.

Fundamentally much of the discussion about taxation in Scotland has focussed on income tax. In one sense understandably as this is biggest tool at the Scottish Government's revenue raising disposal. But income tax is, clearly, only focussed on income and while income inequality in Scotland is undoubtedly too high, wealth inequality is deep and underpins much of the poverty and inequality in our society.

Housing to 2040 sets clear, and welcome, ambitions for stable house prices, housing no longer being a store of wealth and for the PRS to be based on rental income not capital appreciation. Council tax is not meeting these goals. Recent changes to increase charges on second homes are welcome but, again, these are small steps towards fixing a more structural problem.

CaCHE's work will explore alternative approaches to the council tax, including revaluation and re-banding, but also at more radical changes like a proportionate property tax. It will analyse the distributional and spatial impacts of these possible changes too. While it would be possible to reform or replace council tax in a way that is revenue neutral (i.e. it raises the same amount of money as council tax but in a less regressive way), it will also be possible to explore ways in which additional revenues could be raised. That additional revenue could complement the ability of such a reformed tax to rebalance the housing market by supporting additional investment in social housing.

Reforms to local taxation have a, euphemistically, chequered history in Scotland so it is crucial that these arguments for reform are made carefully and with transparent information on their impacts.

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6 February 2024