

Written Evidence: Local Government Committee, Holyrood

The 2024-25 Housing Budget and Delivering Housing to 2040

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My Background

I have researched housing policy related questions since the late 1980s. Key areas of work have included housing demand, housing market and housing system analysis, local taxation, the economics of subsidy and public expenditure, and, more recently, the design and delivery of housing policy reforms such as rent control and retrofit. I am the Principal Investigator and Director of the ESRC's UK Collaborative Centre for Housing Evidence, established in 2017. For clarity, I am a member of the Shelter Scotland Committee, a trustee and board member of the What Works Centre for Homelessness Impact, and a board member of Clyde Valley housing association.

Relevant Current Work

For the last year I have led a project for the Joseph Rowntree Foundation on Sustainable Scottish Housing Policy Development – ostensibly about diagnosing progress and proposing supportive interventions to help achieve core objective of Housing to 2040, in particular project supporting achieving the key goals of Housing to 2040, around the twin areas of the Affordable Housing Supply Programme (AHSP) and devolved housing tax reform. While the project is principally concerned with reducing poverty and inequalities through progressive housing intervention, it actually embraces a number of key evaluative criteria: improve system efficiency; reducing poverty and inequality to foster social justice; the principles of good policy design and supporting moves to net zero. The project will report in the Spring but below we briefly discuss a subset of initial proposals and findings.

At the same time, I chair the Short Life Working Group: *Towards a shared understanding of housing affordability*. This was part of the original Housing to 2040 road map, and as the scope to move Scotland towards a single coherent view of housing affordability thresholds with wider implications for rents and housing interventions. We are presently building the analysis towards a draft set of recommendations. These recommendations will be reported to Scottish Ministers in May.

The Scottish Housing Budget and the AHSP Challenge

The budgets for 2023-24 and 2024-25 have both reduced the money available to the Affordable Housing Supply Programme. The Scottish Government's commitment to the overall £3.5 billion programme for the 2021-26 Parliament has now been significantly reduced over two annual budget cycles, and the headwinds are if anything worse going forward. At the same time, the fundamentals

of inflation, shortages and financial challenges for providers, means that the sum allocated now buys much less housing supply than was assumed in 2021 (Berry, 2024¹).

The 2023-24 budget cuts took the form of a reduction in the affordable supply programme, and used part of the remaining programme to contribute to an acquisitions PRS buyback programme and also redirected funds to rural housing supply. Compared with the previous year's budget this represented a 10% real terms reduction in the AHSP (£200m) according to the Chartered Institute of Housing². Shelter Scotland (2023)³ estimate the reduction in the programme at 16%. These reductions in the faces of increasing local challenges also stimulated the influential 2023 SOLACE/ALACHO report⁴ on social housing calling for more resources and reform of how it is delivered.

The 2024-25 cuts are deeper but spread between social and affordable supply. Overall, the draft budget (December 2023) reduces the AHSP from £751.9m to £555.8m. This a 26% reduction in nominal terms and in real terms a cut of £205m (Berry, 2024). The main elements of the cuts are a reduction in capital grants for new social housing supply of £75m (-14% in real terms) and a £121m reduction (-72% in real terms) in financial transactions capital for affordable home ownership (open marked shared equity), charitable bonds and mid-market rent. These reductions are greater than what was anticipated in the recent capital spending review and the cuts proportionately are greater than for the capital budget as whole (Berry, 2024). Overall, these housing budget cuts, and within them, the AHSP reductions, are proportionately larger than the Barnett cuts passed on from the UK Government (and forecast for the next 5-6 years).

Fewer homes built, especially for social housing, reduces the proportion of affordable need being met and means that fewer families and children can be helped by good housing out of poverty, temporary accommodation and unsuitable housing. Is this a critical juncture, a turning point away from the housing supply successes of the last two parliaments and an uncertain less ambitious future? Just as housing, economic, fiscal and social challenges are compounding. Reports (January 20, 2024, Scottish Housing News) suggest that the government is considering some form of delaying of the achievement of AHSP supply targets.

The AHSP challenge is not just about the SG budget allocation to housing. It is also about the wider negative market context for the delivery of new supply i.e. not just programme cuts but rising build and financing costs, development and build prices outstripping benchmark grant rates, shortages of supplies and labour, and, provider withdrawal from new supply. Recent housing supply leading indicators of new supply (starts and approvals) suggest, other things equal, a significant downturn in future completions running well short of Housing to 2040 targets.

Key Short to Medium Term Risks

In 2020, Audit Scotland reviewed affordable housing supply and made the following key points. They

¹ Berry, K (2024) Affordable homes – Scottish Government budget and progress. SPICE spotlight blog, 15 January 2024. https://spice-spotlight.scot/2024/01/15/affordable-homes-scottish-government-budget-and-progress/?utm_source=twitter&utm_medium=spice_research&utm_term=&utm_content=26423346-59eb-40d3-976e-6cd3e617d210&utm_campaign=ongoing

² Chartered Institute of Housing (2022) Scottish Housing Budget announcement December 16 2022. <https://www.cih.org/news/scottish-government-budget-announcement>

³ Shelter Scotland (2023) *Local Authority Report Cards: briefing note on analysis of key statistics*. Shelter Scotland: Edinburgh

⁴ Solace/ALACHO (2023) *Housing in Scotland: Current Context and Preparing for the Future*. Solace Scotland.

noted the delivery of affordable units nationally across the first two programmes, that these helped meet important unmet housing needs, it led to a net increase in social housing, and improved the quality of affordable housing overall. However, at the same time, there was an incoherence in the lack of connection between the national need target and the locally derived needs generated by councils and partnerships of councils. This hinders the measurement of outcomes locally (what sort of need is met relative to local priorities; and, to what extent are there wider beneficial outcomes?). In turn, this lack of monitoring or concern with local outcomes means that Audit Scotland cannot assess the value for money of a £3.5 billion programme.

Audit Scotland also identified several risks for programme delivery, many of which providers were trying to address and, as a result, the Scottish Government has made changes in the subsequent 2021-26 programme (e.g. the housing infrastructure fund and the 10% quota commitment to rural, remote and islands housing (p.34-35)). The risks included:

- Continued access to suitable land and necessary infrastructure, and also planning delays
- Higher development costs in rural areas
- Funding uncertainty
- Costs and capacity (including council capacity)
- Sustainable development and meeting the needs of local communities.

The July 2023 SOLACE report also makes important points about the programme and the challenges it faces post-Covid and in the midst of the cost of living crisis:

- An emerging affordability crisis across the whole housing system but particularly in rural, island and east central Scotland.
- Record and rising numbers in Temporary Accommodation (TA) across most councils and increasing numbers of open cases and time spent in TA. Allied to this, the cumulative impact of a wide range of humanitarian and asylum seeker programmes.
- Specific supply-side problems with water utilities.
- Continuing shortfall in the supply of mainstream social housing lets from the existing housing stock, mixed progress with homelessness lets, alongside the emerging issue of a shrinking PRS, creating further demand for social renting.
- Evidence of the limited impact and unintended consequences of the 2022 emergency rent legislation (e.g. deterring BTR investment)
- An emerging risk of a significant slow-down and underspend in the AHSP flowing from a growing imbalance between (admittedly increased) benchmark grants and still higher (and rising) development costs, making projects less viable.

Combining this evidence with our own analysis of the AHSP process and the place of the supply programme in terms of budget priorities, we conclude that there needs to be a number of important review processes to inform revising how need is measured, resources are allocated and housing fits into budget priorities, in order to improve actual outcomes on the ground:

- SOLACE recommended a cost benefit analysis of the net benefits (including preventative benefits) of social housing investment. This is an essential part of making the case for re-prioritising housing investment.
- A new study of the financial capacity of social housing providers in Scotland. The last was in 2010 and much has, of course, changed in the last 14 years.
- A new national affordable need study reflecting changes since 2019 alongside a detailed consideration of how a more granular approach to HNDA might be better reflected in decisions around SHIP allocations and link to outcomes locally.
- Greater discretion within the SHIP system to allow underspends to be carried over to subsequent years within local authorities.

- A transparent review of the SHIF formula allocating funds to the 30 councils (ie reassess the weights for deprivation, affordable need, rurality, etc.) receiving allocations, and also a review of the TMDF arrangements for Glasgow and Edinburgh which are long overdue given their original stock transfer basis – hasn't need changed in the two cities?

Our Initial Proposals to Support AHSP

In addition to these process-focused evidencing reforms, there is clearly pressing need for change. Below we illustrate some of the early ideas, with the focus is on how to get as much from the existing programme that meets need by providing more homes, and distinguishing immediate or short run ideas, from medium and longer term proposals (more radical or systemic in outlook):

- Political choices to switch grant funding into social housing from affordable and to raise grant per unit – to secure units rather than the target
- Develop a state-backed guarantee low-cost lending model for affordable rent (and also for acquisitions from the PRS for Temporary Accommodation?).
- Encourage reforms to provide more low-cost land into the system and facilitate larger site collaborations e.g. Inter public sector land prices reduced where it is for social housing.
- Institutional reform ideas to follow e.g. a national housing and land agency, supporting a pipeline of larger sites, including new master-planned partnership-based settlements and new towns.
- A flavour of more radical long term thinking would include land market interventions and tax reform – happy to discuss these and other proposals at more length in the evidence session.

Wider Housing to 2040 Considerations

Finally, how are the end goals of Housing to 2040 impacted in totality by these spending cuts, by performance so far and pipeline proposals like the anticipated Housing Bill? Which key areas are on track, which are more concerning and which are still to get going? Can clarity on these questions be provided by the proposed Scottish Government midterm review and the programme delivery board about revised priorities, objectives and what is to be delivered? How can we best support the long term aims in ways that are feasible, rational and progressive?

In an earlier review of *Housing to 2040* when it was published (Gibb and James 2021⁵), while supporting its vision and principles, we raised a number of concerns which remain just as valid today:

- The need for systematic analysis, monitoring, gateways and flexibility in light of changed environmental factors.
- What is the capacity to implement and sustain key elements of the rights-based agenda, as illustrated presently by the TA problem and by rent control policy design. Is there the financial and people resources, the infrastructure, data and monitoring to make these policies work?
- What are the guiding principles of a well-functioning housing system, which should sit at the centre of all analysis, reform and policy design considerations?
- It is well worth defending the radical vision in the strategy e.g. de-speculating and stabilising housing market volatility (a good example of critical long term initiative which hasn't seen any visible evidence of progress yet) – hence our focus on reforming devolved housing taxes in the work with JRF.

⁵ Gibb, K and James, G (2021) *Housing in Scotland: Evidence for Scottish Government 2021-26*. CaCHE: Glasgow.